The Economist

MAY 6TH-12TH 2006 www.economist.com

Gazprom, Bolivia and the energy wars

Is Turkey slipping backwards?

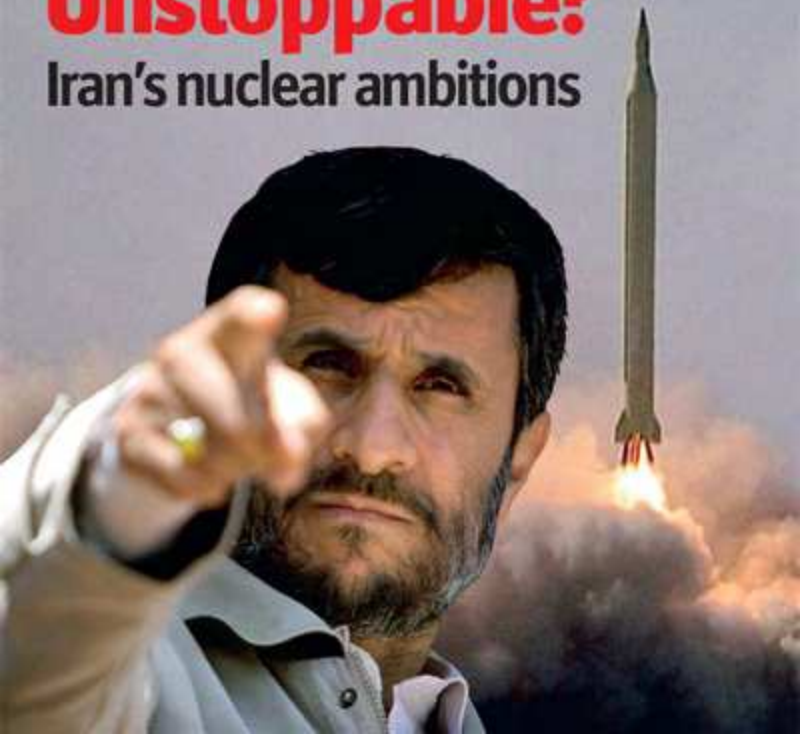
Outsourcing: China takes on India

The real map of London

Farewell, J.K. Galbraith

Unstoppable?

Iran's nuclear ambitions



ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
BUSINESS
Management Reading
Business Education
Executive Dialogue
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
PEOPLE
Obituary
BOOKS & ARTS
Catch if you can
Style Guide
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
DIVERSIONS
RESEARCH TOOLS
CLASSIFIEDS
DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and
Business Gifts

Print Edition May 6th 2006

On the cover
Iran: Be tough now, to prevent military conflict later: leader

Previous print editions
Apr 29th 2006
Apr 22nd 2006
Apr 15th 2006
Apr 8th 2006
Apr 1st 2006

More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week
Politics this week
Business this week

Leaders
Unstoppable?

Petrol and politics
Oil and hauteur

Immigration to the United States
Brains and borders

Turkey and Europe
Coming apart?

Thailand
A sinking ship

Letters
On Jerusalem, women and the economy, Brazil, Latin, Donald Rumsfeld, fake goods, oil

Special Report
Iran and the bomb
A government that thrives on defiance

The neighbours
A sequel nobody wants

United States
Immigration policy
More marches, a growing backlash

Alternative energy
Canola and soya to the rescue

Sustainable universities
From Crimson to green

Zacarias Moussaoui
The one who got away

Upstate New York
Facing Destiny

Celebrity lawsuits
Show me the money

Lexington
Remembering Flight 93

The Americas
Bolivia
Now it's the people's gas

Canada
A practical man

Mexico
Just (don't) legalise it

Asia
Japan's economic recovery
Depends on where you are

Thailand
Awaiting judgment

Pornography in Indonesia
The backlash

Kashmir
The indelibility of war

India

Business
Russian gas and Europe
Who's afraid of Gazprom?

The EU and Gazprom
Divided and panicky

Siemens
Nip, tuck

GMOs
Up from the dead

Japanese toys
Playtime

Microsoft
Damned if you do

Buying American firms
Uncle Sam says yes

Face value
Daddy cool

Special Report
Outsourcing to China
Watch out, India

Finance & Economics
German savings banks
Strife at the Sparkasse

Austrian banks
Oh, brother!

Carbon trading
Cleaning up

Asian stockmarkets
Mercury rising

Americans without bank accounts
Into the fold

Prepaid cards
Plastic promise

Economics focus
The weeds of destruction

Award

Science & Technology
Quantum computing
One qubit at a time

Health in America and Britain
Transatlantic rivals

Ecology and evolution
A heated debate

Sand dunes on Titan

Books & Arts
America's early settlers
Trials of the Pilgrims

American history
Less exceptional than it thinks

New film
Apocalypse Now?

Advertisement

Pakistan's earthquake
Tremors to come

Middle East & Africa

Darfur
From one deadline to the next

South Africa
Barking up the wrong sun-deck

Iraq's trade unions
Tender shoots in weed-bound soil

Hamas and Fatah
Shut your eyes and think of Palestine

Saudi Arabian reform
Drip, drip, dripping

Europe

Turkey
Flying in the wrong direction

The Balkans
Please let us join your club

France's Watergate
Muddy waters

France and immigration
Let the skilled come

German politics
Extreme sports

Italy's government
Finalmente!

Charlemagne
Dreaming of Bolivian moments

Britain

London
There goes the neighbourhood

Tax avoidance
Holes in the net

Boarding schools
Labour's great experiment

Foreign prisoners
Who wants to sort out home affairs?

Immigration
Punting Poles

Bagehot
The wheels on the bus

Award

Orange flowers

Management
A portfolio life

Opera management
Muddy times at the Met

Obituary

John Kenneth Galbraith

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Current-account balances

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Metal prices

Emerging-Market Indicators

Overview

Petrol prices

Economy

Financial markets

Articles flagged with this icon are printed only in the British edition of *The Economist*

Advertisement

Classifieds

Jobs
Based: Central London CFO Europe, the leading source of magazines,....

Business / Consumer
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Invitation for Bids Gover....

Jobs
Opening for a in Corporate Growth Strategy. The Cambridge Group, Inc., a leading cor....

Jobs
....

Jobs
Genius. LONDON - Excellent package (secondment also welcomed) Prob....

Sponsors' feature

Copyright © The Economist Newspaper Limited 2006. All rights reserved. | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

document created by *NiflHeiM*

Politics this week

May 4th 2006
From The Economist print edition

Zacarias Moussaoui escaped a death sentence and was sent to jail for life for his part in al-Qaeda's September 11th plot. He had told a court in Virginia that he felt no remorse. On being led from the dock he shouted: “America, you lost.” See article

Reuters

More mass protests and rallies in support of citizenship rights for **illegal immigrants** took place across the United States. Demonstrations in Chicago and Los Angeles attracted at least 400,000 in each city. However, some supporters worried whether a concurrent “Day Without Immigrants”, a boycott of work and business by many Latino workers, may have been counterproductive. See article

The American army brought indictments against Lieutenant-Colonel Steven Jordan for mistreating prisoners at Iraq's **Abu Ghraib** jail. He is the highest-ranking officer to face charges in the scandal.

Ken Blackwell won the Republican primary for governor of **Ohio**, becoming the first-ever black candidate to run for the office. The state party has had a bad run recently (the current governor became embroiled in a lobbying scandal) and will have a tough time defending the seat in November.

In **California's** race for governor, Phil Angelides, the state treasurer, won the formal endorsement of the Democratic Party, despite the lead in the polls of his main opponent, Steve Westly, ahead of the primary election on June 6th. Either man will face the Republican incumbent, Arnold Schwarzenegger, in November's election.

Jobs disapproval

France's prime minister, Dominique de Villepin, insisted that he would not resign because of the Clearstream scandal, a murky affair involving bribes, spies and his centre-right rival, Nicolas Sarkozy. Yet Mr de Villepin's ratings continue to slump, threatening Edith Cresson's title as the fifth republic's least popular prime minister. See article

Silvio Berlusconi stepped down as **Italy's prime minister**, three weeks after losing the election. He decided to quit after votes for speakers of the two parliamentary chambers were won by his centre-left opponent, Romano Prodi. But he promised to offer Mr Prodi aggressive opposition. See article

The European Union called off talks with **Serbia**, which is hoping to become a candidate for entry, after the Serbian government missed a deadline of April 30th to hand over Ratko Mladic, an indicted Bosnian Serb general, to a war-crimes tribunal in The Hague. Serbia's deputy prime minister and chief EU negotiator, Miroljub Labus, resigned. See article

Four European Union countries, Finland, Greece, Portugal and Spain, decided to lift restrictions on the movement of labour from new EU members in **central Europe**. They will join Britain, Ireland and Sweden. But France, Germany and Italy have all decided to prolong their restrictions.

Energy of the state

AP

Bolivia's recently elected socialist president, Evo Morales, led troops into a Brazilian-run gasfield and unveiled a decree nationalising his country's oil and gas industry. Earlier, in Havana, he had signed up to the "Bolivarian Alternative", a political alliance involving Cuba and Venezuela. See article

In a sudden about-turn, **Mexico's** president, Vicente Fox, refused to promulgate a bill that would have legalised the possession of small quantities of drugs, both hard and soft. His spokesman had earlier praised the measure, which was criticised by American officials. See article

Official results of **Peru's** presidential election confirmed that a run-off ballot in June will involve Ollanta Humala, a nationalist former army officer (who won 30.6% of the vote), and Alan García, a populist former president (24.3%).

The deputy leader of **Honduras's** governing Liberal party was shot dead at his home in what police believed was an attack by a drug gang. He was the first legislator to be killed in the country since democracy was restored in 1982.

In its first budget since winning an election in January, **Canada's** Conservative minority government unveiled 29 tax breaks together with measures to reduce the public debt. Meanwhile, the Canadian dollar edged over 90 American cents, its highest level for 28 years. See article

No peace

In two co-ordinated and grisly attacks, suspected Islamic militants killed 35 Hindus in the mainly-Muslim Indian state of **Jammu & Kashmir**. Talks between Kashmiri separatists and the Indian prime minister made little progress. See article

Pramod Mahajan, an up-and-coming senior official of India's main opposition party, the Bharatiya Janata Party, died, 11 days after being shot by his own brother. See article

Nepal's government declared a ceasefire with rebel Maoists and said it would drop terrorism charges (the rebels had earlier offered a three-month ceasefire). A new government is now in place; but the Nepalese king's future is uncertain.

Terror stalks the streets

Murder, and the discovery of murder, continued in **Iraq**. Separate suicide-bomb attacks killed 15 people in Falluja, and nine outside a courthouse in Baghdad. Meanwhile, scores of corpses, which had been shot and handcuffed, were unearthed in the capital.

Ehud Olmert, **Israel**'s prime minister, announced a government dominated by his Kadima party. Tzipi Livni will be his deputy as well as foreign minister. Amir Peretz, the Labour leader, will be defence minister. The coalition consists of Kadima (29 seats), Labour (19), Shas (12) and the Pensioners' party (7).

AFP

American and European diplomats tabled a draft resolution for the UN Security Council calling on **Iran** to end uranium enrichment and threatening future measures to enforce compliance. Russia and China have so far opposed sanctions. See article

Presidential elections took place in **Chad** as planned on May 3rd, despite calls from opposition parties for a boycott and a rebel attack on the capital last month that came close to toppling the incumbent, Idriss Déby.

Negotiators from the Sudanese government and rebel groups missed several deadlines in their attempts to clinch a peace deal to end the conflict in **Darfur**. Officials from America and Britain joined the talks in Abuja, the Nigerian capital, to put pressure on both sides to make the necessary concessions. See article

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

May 4th 2006
From The Economist print edition

Austria's government and leading financial institutions agreed to a *euro*1.35 billion ($1.7 billion) rescue package for **BAWAG**, which is owned by trade unions and is one of Austria's biggest banks. The bail-out settles claims by creditors for **Refco**, which sued BAWAG alleging involvement in the broker's spectacular bankruptcy. BAWAG's dented reputation has seen customers rushing to withdraw deposits. See article

Bank of America agreed to swap its BankBoston operations in Brazil (which it acquired when it bought Fleet Bank in 2004) for a 5.8% stake in **Banco Itau**, the country's second-biggest private bank. BOA's move is preparation for a buoyant market for bank loans in Brazil on the back of falling interest-rates.

NASDAQ has increased its holding in the **London Stock Exchange** to 18.7% from the 15% stake it bought two weeks after its bid was rebuffed by the LSE's board in late March.

High-tech stakes

Microsoft's share price fell by 11%, its biggest daily fall for five years, after the software giant said it would increase investment in its internet-services unit in an effort to fend off growing competition from **Google**. Microsoft's market value plunged by $32 billion. Meanwhile, Google complained that Microsoft's new browser for the web favours its own search service over those of its rivals. See article

In a deal that shows the rapid development of Africa's mobile-phone market, South Africa's **MTN** agreed to buy **Investcom** (which is based in Dubai) for $5.5 billion. MTN will now rival Egypt's Orascom Telecom as the biggest mobile operator in Africa and the Middle East.

Research In Motion, which narrowly averted the shutdown of its **BlackBerry** e-mail service two months ago, now faces another lawsuit, this time from Visto, a firm that specialises in technology for mobile e-mailing. Visto, in which RIM's previous sparring partner NTP acquired an equity stake last December, claims that RIM infringed four of its patents.

EMI confirmed it had made a $4.2 billion takeover approach to **Warner Music**, which was promptly rejected. The two rivals have previously explored ways of joining up to compete with Universal Music and Sony BMG, the world's biggest music companies.

No direction home

Sirius, a subscription-only satellite radio network, said its first-quarter loss had more than doubled from a year ago, to $458.5m. A large chunk of the loss was related to stock-compensation expenses for Howard Stern, America's most popular radio host, who was nabbed

from CBS Radio. Both Sirius and XM, America's biggest pay-radio network, are locked in fierce competition for subscribers—one reason why Bob Dylan this week made his debut as a DJ on XM.

Shortly after agreeing to a *euro*25 billion ($31 billion) merger with Spain's Abertis, **Autostrade**, an Italian toll-road company, removed Vito Gamberale as its chief executive over disagreements about the deal. Some politicians in Italy have voiced opposition to the merger, citing the importance of Autostrade's road network to the country's infrastructure.

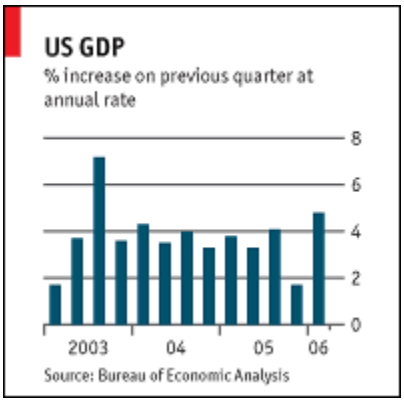
Volkswagen's supervisory board agreed to extend the contract of Bernd Pischetsrieder as chief executive for another five years. His future came into question after the German carmarker's chairman, Ferdinand Piëch, claimed he had lost the support of union members (who make up half the board). Mr Piëch in turn faced sharp criticism from investors at VW's annual meeting this week for hindering a restructuring plan that is expected to cost thousands of jobs.

EasyJet's pre-tax loss for the six months ending March 31st almost doubled, to £40m ($70m), compared with a year ago. The biggest factor was the cost of fuel, which increased by 68%. However, the budget carrier, which normally posts a loss for the October-March season, predicted a summery outlook for the rest of its year and said annual profits should increase by up to 15%.

America's markets responded skittishly to comments by **Ben Bernanke,** rallying after the chairman of the Federal Reserve signalled that the policy of raising interest rates was over and falling in response to a later report that he thought his comments had been misunderstood. Pundits made inevitable comparisons with Mr Bernanke's predecessor, Alan Greenspan, who made a point of never being understood. See article

Fully rested

America's GDP grew at an annualised rate of 4.8% in the first quarter, the fastest rate of growth for more than two years. But, with the price of oil trading steadily over $70, some economists expressed concern that consumers might rein in their spending in response to higher petrol prices.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Unstoppable?

May 4th 2006
From The Economist print edition

Be tough now, to prevent military conflict later

Reuters

Get article background

DIPLOMACY is the art of the seemingly impossible. Fingers crossed, then, that the diplomatic toing and froing among America, Britain, France, Germany, Russia and China over the coming weeks succeeds in avoiding the two biggest dangers in the gathering nuclear confrontation with Iran. One is that, despite calls to desist from the United Nations Security Council, Iran carries on its nuclear experimentation and gets itself a bomb. The other is that failure to stop it in its nuclear tracks by other means leads to military force being tried instead. Steering clear of both these potential calamities requires that the costs to Iran of pressing on and the potential benefits of giving up both rise sharply. Yet the diplomats are stuck, and Iran may (mis) calculate that it can get away with it.

Would it be so disastrous if Iran got the bomb? Pakistan, India and Israel all built theirs in defiance of the anti-nuclear rules that others accepted (though unlike North Korea and now Iran they did not sign the Nuclear Non-Proliferation Treaty, so never broke its provisions). The cold war, too, passed off without the threatened nuclear Armageddon. Yet at times it was an alarmingly close-run thing, and each new nuclear state multiplies the dangers. All have fingered their nuclear trigger at one time or another.

Iran, it has to be said, denies any interest in a bomb. Yet it spent two decades deceiving inspectors from the International Atomic Energy Agency about its enrichment of uranium and its experiments to produce plutonium (both potential bomb ingredients), and it is still covering up. Few either inside Iran or outside believe that its nuclear ambitions are entirely peaceful, as claimed. The fear is a double one: of what a regime like Iran's might be tempted to do with a bomb, and of the aftershocks a nuclear-capable Iran might cause.

Iran's president, Mahmoud Ahmadinejad, has called for Israel to be wiped from the map. There is little love lost between Iran and its Gulf neighbours either (see article). But would even Iran's fire-breathing clerics be foolhardy enough to threaten Israel or anyone else with nuclear weapons, if they had them? No one knows. But others that have lived, albeit grumpily, with Israel's basement bomb for years—including Saudi Arabia, Egypt, Syria, possibly even Turkey—are unlikely to wait to find out. And a nuclear arms race in this fissile region would magnify the dangers by a factor of megatonnes.

Measured against that prospect and the worry that Mr Ahmadinejad might seek to use a bomb as cover for more aggressive behaviour in other ways, military action to put Iran out of the weapon-making business can start to look like a plan. It is not in principle “nuts”, as Britain's foreign

secretary, Jack Straw, has suggested, to think in extremis of pre-empting a potentially nuclear-tipped threat. In the hope of instilling caution in a self-styled “revolutionary” regime, America, Israel and others are right to take no option off the table.

In practice, however, the use of force might succeed only in adding to the dangers. Iran's known nuclear sites are dispersed, while others may be hidden; a military strike might set back its nuclear ambitions, but would be unlikely to end and may well redouble them. Meanwhile, the mullahs have means to retaliate: through the armed groups they finance in the fight against Israel and through Shia allies in Iraq and beyond. An attack on Iran would also divide the outside world, which has lined up pretty solidly against its nuclear plans so far, and would unite ordinary Iranians behind an oppressive regime that many of them would rather be shot of.

The aim, surely, should be the reverse: to keep up as united a diplomatic front against the atomic ayatollahs as possible, while encouraging other influential Iranians to weigh the costs of isolation. That is the mission-impossible the diplomats have been set. Pulling it off will take much tougher and more imaginative diplomacy than has been managed so far.

The auguries are not good. In theory, with so many Iranians (two-thirds of whom are under 30) out of work, the government should be desperate to lure in foreign investment and trade. Yet with oil at over $70 a barrel (and rising with every threat Mr Ahmadinejad utters), the windfall is helping the regime to increase hand-outs, replenish its coffers and bank on riding out the diplomatic storm.

Meanwhile, even though Iran has brushed aside the Security Council's request to cease uranium-making, Russia and China are balking at the obvious next step: turning its request into an instruction that, if necessary, can be enforced under Chapter 7 of the UN's charter. Neither Russia nor China wishes to see Iran go nuclear. Both have insisted, like America and the Europeans, that it must suspend all uranium work if negotiations are to resume. Russia has also offered to enrich uranium on Iran's behalf, so as to make space and time for a solution to be found. Yet both are loth to risk their economic ties to Iran, and both fret that any Chapter 7 resolution will be used to justify force. That, they say, was the lesson of Iraq.

The other lesson from Saddam

But there is a different Iraq lesson they should be drawing. Saddam Hussein was able to drag out his defiance for years because the Security Council was badly divided. He believed to the end—mistakenly, and disastrously for him—that Russia and China would protect him from the consequences. Iran is now boasting the same. Thus a Chapter 7 resolution, even one at first with only fairly mild sanctions attached (though tougher ones, including an end to investment in Iran's oil and gas industries may eventually have to be tried), is probably necessary to jolt Iran out of its dangerous complacency—before anyone else is tempted to try something more desperate.

But if all options are indeed on the table, as America suggests, then it is time for the Americans to take a fresh look at the diplomatic one too. It may be that nothing can induce Iran to give up its nuclear plans—it has already brushed away European offers of trade, improved ties and help with other nuclear technologies. But between America and Iran there is at least a meeting of motives, if not of minds: Iran's regime points to America's threatening talk as reason to defend itself; to America, Iran's nuclear work makes it a potential target. If Iran agreed to halt its uranium and plutonium activities, and America agreed not to attack, might that open the way to direct talks that could help finesse the nuclear problem for good?

America has resisted the idea of such talks. Iran supports armed groups hostile to Israel, opposes the Middle East peace process and harbours some senior al-Qaeda suspects that America says are

still plotting violence. George Bush bristles too at the regime's anti-democratic ways. Yet only America could make Iran an offer it would find it hard to refuse and that might help it rethink its hostility to the West—not least because American sanctions have for years helped throttle Western investment in Iran's economy.

This sort of “grand bargain” between outpost-of-tyranny Iran and Great Satan America may be beyond anyone's reach. Russia and China may block all Security Council action. And Iran, whose nuclear rule-breaking is the cause of the crisis, may insist on enriching regardless. But the coming weeks may bring the last opportunity to head off a future conflict. A combination of tougher penalties and juicier carrots may still not be enough to avoid a crisis. But they are surely worth a try.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Petrol and politics

Oil and hauteur

May 4th 2006
From The Economist print edition

Why resource nationalism is bad for you

AFP

HITTING the open road with a full tank of petrol is an exhilarating feeling. How much more intoxicating, then, to take the helm of a country with oil reserves in the billions of barrels—especially at a time when each of them might sell for a record price. The possibilities are limitless. Vladimir Putin, for one, is trying to use oil to restore something of Russia's imperial glory. At any rate, Gazprom, Russia's state-controlled gas monopoly, is frightening many Europeans with its expansionist ambitions (see article). Meanwhile, Evo Morales, Bolivia's new president, wants to reshape his country's economy: on May Day, before a cheering crowd, he summarily nationalised Bolivia's oil and gas fields (see article). He was seemingly inspired by Hugo Chávez, the president of Venezuela, who is also bashing foreign oil companies. Plenty of less turbulent energy-producing nations are no less keen to capture a greater share of the money and power from their resources.

That is natural enough—but there are sensible and foolish ways of going about it. Gazprom, for example, is refusing to allow wider access to its pipelines, which could be used to transport other companies' gas to the European Union. It also cut supplies at the beginning of the year amid a contractual dispute with Ukraine. These bullying tactics have succeeded only in stirring up concern about whether Gazprom is a reliable supplier for Europe. Eventually, its customers are bound to respond by seeking to buy gas from elsewhere—there is plenty of it that can come through pipelines built to bypass Russia or from further afar, as liquefied natural gas. Gazprom, in other words, is busily undermining its own ascendancy.

Europeans are now so worked up about Gazprom's conduct that the firm is struggling to fulfil its more sensible ambition of buying distribution in the EU. Although it managed to raise its stake in a German pipeline and trading firm to just under 50% last week, the admission that it was eyeing

Centrica, Britain's biggest gas supplier, caused yet more anxiety—though it is not quite clear why. Blocking energy deals on the basis of national security is an old protectionist ruse (witness the xenophobia last year about China's state-run oil firm buying America's Unocal). Gazprom should follow the same rules as everybody else—and be disciplined only when it breaks them. As for the threat of the Russians turning off the taps, the world's biggest gas producer is already in a position to wreck EU energy markets. Owning distribution networks should give the firm an even stronger incentive to maintain supply.

The miscalculation of the Bolivians and Venezuelans is similar to that of the Russians. As the original owners of their oil and gas, they are naturally keen to retain as much money from extracting it as possible. Ever since Mexico nationalised its oil industry in 1938, producing countries have gradually increased their take at the expense of western oil firms. The best time for producing countries to alter the rules in their favour is when the oil price is high, and foreigners keenest to invest.

But tearing up contracts or confiscating property also carries costs, which the resource nationalists of Latin America (and elsewhere) seldom acknowledge. Mr Morales is gambling that multinationals will stay on as contractors, on tough terms. Even if they do, nationalisation makes outsiders leerier about investing in the future and so raises the cost of capital not just in the oil industry but for the economy as a whole. When the oil price falls and producing countries find it too expensive to develop their own resources, foreign firms will demand better terms to take up where they left off, launching a destructive cycle of renegotiations and abrogations. This is the third time that Bolivia has nationalised its oil industry, and the second that Venezuela has squeezed foreigners (having nationalised in 1975, it invited them back two decades later).

How to drive a bargain

State-run oil companies are often inefficient. They also risk becoming politicised, as Venezuela's has under Mr Chávez. Ever since he provoked a strike—and fired many of the strikers—three years ago, its output has plunged. Corruption is another common problem—although perhaps an enticement in the eyes of some politicians. At the very least, state-run oil firms are likely to suffer from underinvestment, as governments milk them for as much revenue as possible.

Oil and gas is a cyclical business. Producing countries should be planning for the lean years during the fat ones, just as private firms do. That is not to say that they can never renegotiate burdensome contracts—but rather they should do so with a minimum of grandstanding, mindful of what might happen during the next turn of the cycle. By the same token, dominant suppliers like Gazprom are likely to see their leverage weaken if they try to use it too often. Such caution is not the stuff of joyrides—but it is less likely to end in a crash.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Immigration to the United States

Brains and borders

May 4th 2006
From The Economist print edition

America is damaging itself by making it too difficult for talented people to enter the country

THE dominant images in America's immigration debate are now well established: illegal immigrants marching in the streets of Los Angeles or Chicago; angry congressmen demanding that the United States regain control of its borders. It is to be hoped that America will find a fair way to legalise the status of the masses who have risked so much to get there (see article). But the understandable focus on poor migrants has obscured the fate of richer "knowledge workers". Computer programmers may seem less deserving of pity, but how America treats these people could be even more important to its economy than its attitude to illegal immigrants.

America's high-tech industries have been powered to a remarkable degree by people born outside the country. According to one calculation, 3,000 of the technology firms created in Silicon Valley since the 1980s—more than 30% of the total—were founded by entrepreneurs with Indian or Chinese roots. The science and engineering departments of America's leading universities have drawn the brightest graduate students from around the world. A great many have stayed and created wealth for themselves and the country they chose to settle in.

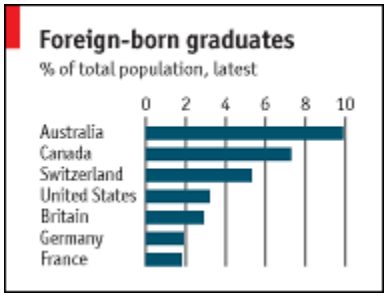
But fears about national security and concerns about economic insecurity mean that America is in danger of cutting off this vital flow of talent. In 2001 it authorised 200,000 H-1B visas for highly skilled workers. By 2004 that figure had shrunk to only 65,000. At the American consulate in Chennai in India, the wait just to get a visa interview is more than 160 days. In a recent letter to Congress, Bill Gates warned that the lack of visas and "green cards" for skilled workers was threatening American competitiveness "as other countries benefit from the international talent that US employers cannot hire or retain." What he did not add is that big American employers can escape the long wait for visas. After all, Microsoft has four big research centres and only one of them is in the United States—the others are in Bangalore, Beijing and Cambridge, England.

The situation is so clearly perilous to the American economy that Congress seems likely to do something about it, if and when it finally passes an immigration bill. But the likeliest remedy—increasing the number of visas and green cards for skilled workers—does not go far enough. Ultimately, the United States should move towards a regime in which any person offered a legitimate job by an American employer is allowed to take it up. Even if fears about competition from low-wage labour make that politically impossible, there is still a strong case for accepting skilled immigrants with offers of work.

The brain game

Other parts of the world are already acting. The Australians, Canadians and Swiss have been successful in attracting foreign

talent (see chart), by adopting a points-based immigration system which favours the highly skilled. The 25 countries of the European Union have been less successful, but some are trying to catch up. The need to lure in skilled East Europeans helped persuade four more EU members this week to embrace the free movement of labour. Even in sluggish France there is a controversial plan for a selective system (see article).



To cast the debate in terms of threats and competition is partly to miss the point. America's top universities and high-tech industries are a magnet for the world's talent—and the whole world has benefited from the results. It is in everyone's interests that America gets its immigration policy right.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey and Europe

Coming apart?

May 4th 2006
From The Economist print edition

It is time to start worrying about Turkey—and looking for ways to revive its European hopes

Get article background

ONLY last year, things were going so well for Turkey that even its best friends could hardly believe their eyes. The promise of European Union membership had led to an investment boom. A party with Islamist roots was showing that Muslim piety and liberal democracy were compatible. The prospect of joining the EU had spurred reform, with happy results for civil liberty and free speech. Although Turko-scepticism persisted in parts of Europe, there were grounds for hoping that Turkey would become more palatable to the EU, even as the union grew more attractive to the Turks.

Above all, it seemed that demons that had plagued Turkey were being exorcised. One was inflation, now decisively beaten back. Another was the assumption that only a vigilant army—wielding power quietly, but ready to do so openly—could keep a secular republic intact. So it has been good to see devout politicians and republican generals co-existing.

Sadly, some of the euphoria over Turkey's march towards Europe has now evaporated. One European commissioner fears a possible “train wreck” in Turkey's relations with the EU, with Cyprus as the most likely obstacle on the track. The ruling Justice and Development (AK) party is no longer such a good advertisement for moderate Islam. By tolerating corruption and nominating cronies to top jobs, it has fuelled suspicions that it wants to concentrate power in a clique. Also worrying—to those who liked the AK party's caution—is a new leaning towards a more openly Islamist foreign policy.

Meanwhile, a resurgence of Kurdish terrorism has drawn a heavy-handed response. Reforms that helped to win Turkey its date with Europe have been reversed (see article). Only months after it became possible to make speeches or broadcasts in Kurdish without fear of prosecution, Turkey may be slipping back to the bad old days, when people were jailed, or worse, because of the language they spoke or the ideas they aired, however peacefully.

A fork in the road

The struggle to combat terror has certainly forced plenty of Western countries to sacrifice some liberties in the name of security. But in Turkey combating terror has often been an excuse to

repress peaceful representatives of any cause or culture that a few extremists promote through violence: the equivalent, in western European terms, of locking up anybody who advocates a united Ireland or Basque independence, even if they eschew violence.

Last year's optimism about Turkey may have been overblown. But the positive energy generated by the surge in Turkey's European hopes has not been completely exhausted. Those hopes can still be fulfilled if everybody with an interest in a European future for Turkey acts responsibly. The AK party, in particular, has a choice: it can slide backwards and perhaps flirt more openly with Islamism; or it can play the European card even harder, pressing on with reforms and demanding that its European partners show similar goodwill.

For this second choice to work, the EU's leaders must be readier to reward Turkey when it takes political risks. Instead, too many are making clear that they do not really want Turkey ever to join. A particular bugbear is Cyprus. Turkish-Cypriots took a risk by accepting, in 2004, the UN plan to re-unify Cyprus. It galls them to see the Greek-Cypriots, who rejected the plan, enjoying the fruits of EU membership when Turkish-Cypriots remain isolated. Besides their blunt insistence on Turkey ending its ban on Greek-Cypriot ships and aircraft, EU governments should look for ways to reassure the Turks—and to bring the Turkish-Cypriots out of the cold.

Turks fear that too many in the EU would rejoice if Turkey were to stumble on its way to Europe. That fear encourages them to look in other directions. Yet the risk of losing Turkey as a prime example of a liberal, Western-oriented, Muslim democracy that works is huge. Europe's leaders must do whatever they can to bring Turkey back on course.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Thailand

A sinking ship

May 4th 2006
From The Economist print edition

When you tear up the rule book, democracy flounders

Reuters

"THAILAND [could] sink more than 4,000 metres under the sea. Irretrievable. We would not be able to rescue it." So, on April 26th, said King Bhumibol Adulyadej, expressing his fears about the political crisis into which his country has slipped, and urging its most senior judges to come up speedily with a solution. A week later, they had not, and the ship of state was riding ever lower in the waters (see article).

Under the constitution, Thailand should have convened a parliament within 30 days of its election on April 2nd. But that deadline has now expired, parliament has not convened and nobody knows what comes next. Thais are paying a heavy price for the opposition's dismissal of April's election result.

That election was boycotted by the opposition parties. Thaksin Shinawatra, the country's prime minister, had won two resounding previous election victories but stood accused of sins ranging from conflicts of interest through corruption to allowing police brutality. Fearing defeat in a straight fight, the opposition called on voters to mark the "no vote" box on ballot papers. Mr Thaksin won 61% of the vote anyway, on a 65% turnout. The "People's Alliance for Democracy" refused to accept the verdict and threatened to continue the protests that had gone on in central Bangkok for weeks. And so, after meeting the king, Mr Thaksin offered his resignation.

The anti-Thaksin lobby hailed this as a victory for democracy. This newspaper saw it as a blow to democracy—a view in which we feel fortified after receiving a critical letter from one western expat who reckoned that "ill-educated and gullible Thais" could not be trusted to get things right (but was quite happy to sell them insurance anyway). On one thing, however, everyone ought to

agree. A country that was doing quite well has now, in the words of the king, been “messed up”.

None of the paths out of the mess looks very promising. The most probable outcome is that the courts will decide, on a number of possible technicalities, to annul the April 2nd vote, and order another one. That in itself will mean no parliament for a good while yet, but it also raises all sorts of questions.

For instance, will Mr Thaksin stand? Will the opposition participate fully and pledge to respect the outcome of the vote (which they should do, even though the contest might well end in another victory for Mr Thaksin's Thai Rak Thai, the party which, to the horror of the Bangkok “democrats”, most other Thais seem to like)? If the new election results in a number of unfilled seats in the parliament, will the legislature still be deemed inquorate, as it is now? If, on the other hand, the courts do not annul the April election, will the opposition stop playing politics with Thailand's new and fragile constitution, and run in elections for the unfilled seats, so that the legislature can get on with its job?

Mr Thaksin's enemies appear to think that none of this matters very much compared to the benefits of having levered their elected prime minister out of office, albeit by extra-democratic means. They are mistaken. However glad some Thais may be to see the back of a prime minister who had some authoritarian ways and eye-popping conflicts of interest, their country has taken a big step backwards. Once you start allowing demonstrators who number in thousands to throw out politicians who have been elected by millions, the fabric of any democracy is bound to fray, let alone one that has existed for only 14 years and still lies under the shadow of crown and gun. Difficult days lie ahead.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

On Jerusalem, women and the economy, Brazil, Latin, Donald Rumsfeld, fake goods, oil

May 4th 2006
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Municipal unrest

SIR – Your reasonable analysis of the current conflict over Jerusalem ignored two crucial reasons why Israel controls the city—the 1967 Arab-Israeli war and the security situation since 2000 ("The last conquest of Jerusalem", April 15th). Threatened with war by Egypt in 1967, the Israeli government pleaded with King Hussein of Jordan to stay out of the fighting. The hard and costly combat that ensued after Jordan launched air and ground attacks led Israel to conquer East Jerusalem and the rest of the West Bank. In 2000, Palestinians rejected Bill Clinton's plan for divided sovereignty over Jerusalem, including Arab control over Temple Mount and al-Aqsa mosque (which Israel had accepted). They have since launched another war, this time in a wave of terrorist attacks on civilians in buses, restaurants and other public places.

Robert Lerman
Washington, DC

SIR – You gave the impression that Israel's policy on Jerusalem is an aggressive grab for land. For those with a short memory or an eclectic knowledge of recent history it would have been instructive to mention at least once that the 1967 war was initiated by Israel's Arab neighbours with the explicit intent to annex all of Israel and drive its Jewish inhabitants into the sea.

John Dunkelgrün
The Hague, Netherlands

SIR – Israel has pursued a consistent strategy of securing virtually the whole of Jerusalem for its own capital. This colonialist policy includes: the destruction of the Arab quarter opposite the western wall after the annexation of East Jerusalem; the construction of settlements within and around Jerusalem; the plan to build housing to link Jerusalem to the settlement of Maale Adumim; and the construction of a barrier, which not only separates Israelis from Palestinians but Palestinians from other Palestinians. Quite apart from its effect on Jerusalem, this strategy makes an independent, contiguous and viable Palestinian state virtually impossible, as a report leaked from the British consulate in Jerusalem late last year made quite clear.

Mike Barnes
Watford, Hertfordshire

SIR – When Jordan ruled East Jerusalem, Israelis—Jews, Christians, or Muslims—could not go there. Today people are free to pray at the western wall, the Church of the Holy Sepulchre, al-

Aqsa mosque, or anywhere else they decide. Only Israel has demonstrated it has the ability to protect the rights of all people to worship at Jerusalem's holy sites.

George Jochnowitz
New York

SIR – There are legitimate concerns about the barrier Israel is building, but you didn't mention why it is necessary: to stop the easy access that terrorists had to Israel. Moreover, the Palestinian Authority has contributed to its construction by at best not restraining, and at worst supporting, groups that view civilians as prime targets. The present “relative calm” in Jerusalem that you describe is less to do with a ceasefire by militants and more do to with action taken by Israel to improve security.

Jordan Navarro-Abreu
London

SIR – I don't know which makes me angrier: Israel's short-sighted strategy of unilateral separation or the failure of Hamas to become a responsible government. Both are acting in ways that impede the permanent peace their people crave for. Both should accept each other's right to exist as an independent state and get on with living side by side.

S.A. Sherif
London

SIR – My favourite solution for Jerusalem is to internationalise the Old City as a Disney theme park. Temple Mount and the western wall would become pavilions in which the strictest rules are observed and the most colourful customs preserved. Audio-visual spectacles in the evening would project Muhammad ascending to heaven as well as the re-enactment of intrigues that culminate with Herod butchering members of his family. The “Life of Jesus” presentation would eventually be expanded to a fully-fledged Broadway musical. Children would run around with fake Arab head-dresses or Roman helmets, which of course would be made in China. I can't wait to get my family a day pass.

Dov Frishberg
New York

The work-life balance

SIR – Your leader on women and the world economy glossed over a critical issue: the effect that women going to work has on the well-being and behaviour of children (“The importance of sex”, April 15th). You cite a study that finds mothers, on average, spent the same time on childcare in 2003 as in 1965. It is naive to suggest that equal time means equal quality. A stay-at-home mother is able to give care as and when it appears to be needed; a working mother can give care only when it fits into her schedule, which may not be when it is most beneficial to the child.

L.H. Froomes
Beverley, East Yorkshire

SIR – As a 23-year-old male, I found your article on the “importance of women in the workplace” unusually partisan. And after spending several hours revising in the library, it was also a little dispiriting. I am not a dinosaur and believe economic growth would benefit if men and women worked together, and arbitrary distinctions of gender were downplayed rather than indulged. Perhaps young women are outperforming young men because the latter, increasingly being told

they have less to offer, are beginning to believe it.

John Lillywhite
London

Military rule

SIR – Your article on the resurgence of populism in Latin America included former Brazilian president Getulio Vargas in a list of military officers that governed as populists ("The return of populism", April 15th). Although Vargas did attend a military academy, he did not pursue a military career and graduated in law, which he practised for a few years before entering into politics. He was definitely a populist, but a civilian one.

João Luis Hamburger
São Paulo

Proper Latin

SIR – You made the common error of mistranslating Dante's inscription over the entrance to hell, which formed the caption to the photograph in your article on the state of the legal system in Afghanistan ("Bleak courthouse", April 15th). The *ogne* in *Lasciate ogne speranza, voi ch'intrate* clearly refers to "hope" rather than to "ye" and should therefore properly be translated as "Abandon all hope, ye who enter here"—an altogether more terrifying injunction than your interpretation. (In the manner and custom of similar letters of this nature, I hereby promise to get out more.)

Roger Smith
Beaconsfield, Buckinghamshire

Rumspeak

SIR – Lexington's analysis of the criticism of Donald Rumsfeld by several retired generals tells only one side of the story (April 22nd). Mr Rumsfeld himself would be among the first to tell you that old generals are simply a bunch of unknown gnomes.

Jerry Goodwin
Bellevue, Washington

ONLINE ARTICLES

The following correspondence refers to articles published only online

Faking it

SIR - How are the figures of revenue lost to counterfeiters calculated (Handbags at dawn, April 21st)? Few (if any?) of those who buy a fake Rolex could afford the real thing. A fake Rolex sold does not necessarily represent a loss in potential income. The same is true of computer software in developing countries. Clamping down on generic drugs would leave more people untreated. And if counterfeit DVDs mean Julia Roberts can no longer command $20m per film, will the quality of films really suffer?

David Lupton
New Zealand

Oil costs

SIR - I agree with your conclusion that petrol prices are not as bad as some make out ("Calculating the costs of pricey oil", April 28th). But you are incorrect in your assertion that the price of oil is largely out of George Bush's hands. The federal government collects around 40-45 cents for every gallon of petrol sold in America. This is a princely sum, and nearly five times greater than the average profit per gallon of nine cents. If the president wants to show voters how much he cares, he could push for a reduction or elimination of this tax!

P. R. Anderson
Grand Blanc, MI

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iran and the bomb

A government that thrives on defiance

May 4th 2006 | TEHRAN
From The Economist print edition

And a people who may not be quite so keen

EPA

Get article background

A CONNOISSEUR of the vagaries of history, a benevolent patriot, a “peace-loving schoolteacher who has not, to date, done harm to anyone”. This is how Iran's president, Mahmoud Ahmadinejad (above, in civvies), whose earlier broadsides against Israel have provoked comparisons to Hitler, cast himself at a recent press conference. From his ruminative performance, you might not have guessed that his country faces sanctions, and perhaps American military attacks, if it carries on with its nuclear programme in defiance of the United Nations Security Council. He declared himself unconcerned.

Mr Ahmadinejad does not decide Iran's nuclear or foreign policies. These are in the hands of the supreme leader, Ayatollah Ali Khamenei, and his lieutenant at the top of the National Security Council, Ali Larijani, a political rival of the president's. But Mr Ahmadinejad has gone out of his way to associate himself with Iran's ambition to become a producer of nuclear fuel—an ambition that Iran insists it holds only to generate electricity, but which others fear will lead to bomb-making.

The president is a populist in all things and, unlike Mr Khamenei and Mr Larijani, answerable to Iran's voters. Having struggled to fend off his domestic critics after coming to power last summer, Mr Ahmadinejad has learned to silence them by beating a nationalist drum. Hence his decision to talk up the nuclear issue at every turn, and to announce personally, on April 11th, that Iran had

successfully enriched small quantities of uranium. Two weeks later, he declared, “Iran is a nuclear country. It has the full gamut of nuclear technology at its disposal.”

Even if Iran's scientists find it a breeze to perfect and install the batteries of centrifuges they would need in order to enrich uranium industrially, it will be several years before their country has enough of the stuff to power a reactor—and between five and ten, in the opinion of America's director of national intelligence, before it could make a bomb. Clearly, Iran is some way from being a “nuclear country”, but Mr Ahmadinejad has never been one to let facts get in the way of his mission to make Iranians feel strong and respected.

He has been greatly helped by the rise in oil prices—propelled, in part, by the worries about Iran. The country's oil revenues for the Iranian year that ended in March were in the region of $50 billion, nearly twice the figure of two years earlier. As long as world prices stay high, the Iranians know that the chances of their being punished with an oil embargo—which would push prices far higher—are virtually nil. By playing down the prospect of lesser sanctions, and by emphasising the eagerness of China and some Asian countries to sell Iran machinery and consumer goods if European countries refuse to do so, officials are assiduously generating a sense of immunity from misfortune.

To reinforce it, the president has promised unprecedented spending on housing, public works and government bodies, such as the broadcasting authority, that propagate the official ideology. He has also ordered big public banks whose books are full of non-performing loans to lend generously, especially to ordinary citizens. With subsidies and controls, the president and members of parliament, who compete to be generous, have ensured that the prices of petrol, electricity and basic foods rise more slowly than inflation, if at all.

In general, Iranians approve of the nuclear programme, though not all believe official assertions that it is peaceful. As long as the programme threatens neither their wallets nor their security, their enthusiasm for it as an expression of national self-assertion, and their irritation at what they see as the duplicity of Western nuclear powers, are likely to endure. Indeed, from the huge numbers—almost half the population, according to the tourism ministry—that holidayed away from home over the Persian new year, and the lavish wedding parties held nightly in the capital's smarter hotels, you might think Iranians are pretty cheerful about the future.

But that picture is incomplete. Look, for a corrective, to the private investors who fled the stockmarket last October, frightened by the furious reaction to the president's suggestion that Israel should be “wiped off the map”, and have yet to return in large numbers. These investors are cool towards the building industry, once-profitable but now in recession. Nor do they want to buy state enterprises: by its own admission, the government stands little chance of hitting its modest privatisation target. Instead, Iranians seem to prefer gold: the price of Iranian gold coins reached its highest level in over a decade last month, before the central bank's intervention brought it down again. From fancy hillside stud farms to Tehran's textile bazaar and scores of suburban estate agents, the refrain is identical: “The market is depressed.” The reason? “Politics.”

Split hairs, not atoms

That partly reflects the fact that the economic liberalisation nudged forward by Muhammad Khatami, Mr Ahmadinejad's timidly liberalising predecessor, has been halted. But it also reflects rather greater worries about the current crisis than the government admits to. Indeed, if European and other countries do join America's longstanding sanctions regime against Iran, it is far from clear that, in Mr Ahmadinejad's words, these countries “will be more hurt than us”.

Some of Mr Ahmadinejad's rivals certainly sound less sanguine. Akbar Hashemi Rafsanjani, a

former president who lost to Mr Ahmadinejad in last year's election, recently predicted that the diversion of the nuclear programme from its “natural course”, by which he meant the reference of Iran to the Security Council, would cause “lots of problems for us”. Mr Rafsanjani also mentioned another embarrassment that Iranian officials rarely bring up these days: Russia's foot-dragging in completing the nuclear reactor that it has built for Iran at Bushehr, on the Gulf coast; that was due to be finished several years ago.

Mr Rafsanjani has long let it be known that he favours direct—though not necessarily declared—talks with America, aimed at settling all bilateral differences. The supreme leader's views, however, are less easy to read. Having said that Iran would respond to American aggression by striking at the United States' interests “anywhere in the world”, Mr Khamenei recently qualified that vow: Iran would not initiate a confrontation. Mr Larijani, for his part, has repeatedly asserted that Iran is open to the idea of talks. On April 30th, he spoke of Iran's “readiness for agreement and accommodation”.

Over what? A history of Iranian overtures suggests that Iran would dangle concessions on its nuclear programme, its support for Arab groups that reject Israel's right to exist, and common interests such as Iraq, in return for an end to American efforts to destabilise the Islamic republic and a plan to establish full economic relations. But President George Bush has repeatedly shied away from talking to an Islamic theocracy that he detests—despite the urging, most recently, of the Republican head of the Senate's Foreign Relations Committee. Instead, the Bush administration is committing new money and resources to promote opposition to Iran's theocracy.

Recent contacts, or not-quite-contacts, between the two countries, seem to have gone nowhere. Since mid-April, when it emerged that Muhammad Nahavandian, a member of Iran's National Security Council, was in America, his itinerary has been the subject of fevered speculation. Did he try to make contact with American officials? Was he rebuffed? The Iranians say he went there as an economist, at the invitation of American scholars, but that he also popped in to see Iran's ambassador at the UN. The State Department has denied that Mr Nahavandian, who holds a green card, entered the country “for meetings with US government officials”.

Neither did anything come of a very public attempt to set up meetings in Baghdad between American and Iranian officials. Having been talked up last month, the putative negotiations, ostensibly aimed at stabilising Iraq, seem distant now that both sides have sulkily averred that they never really wanted to talk at all. Yet many, in Washington, DC, and Tehran, argue that America and Iran stand a better chance of resolving their differences over a table than through a megaphone.

AP

Through the geopoliticking, some human-rights activists argue, the lot of normal Iranians is being ignored. Certainly, with parliament, the bureaucracy and the judiciary all in conservative hands, it is becoming harder to write critically of the government, let alone question the principles that underpin the Islamic republic. One such questioner, Ramin Jahanbegloo, an academic, was recently arrested as he tried to leave Iran to attend a seminar in Brussels. As yet, however, the authorities show no consistent signs of a return to the violent enforcement of the strict public-morality laws that Iranians endured as recently as a decade ago.

The state's reluctance to alienate the citizenry was recently exemplified by Rahim Safavi, the head of the ultra-ideological Revolutionary Guard. He warned members of the *baseej*, a national militia answerable to the Guard, not to “interfere in

people's lives...and ask for identification cards and rifle through CDs and cassettes". This, in summary, is what the *baseej* was once known for.

In this time of uncertainty, the authorities see their job as that of managing public opinion. Military attacks might make it easier, since they would surely galvanise Iranians against the foreign aggressor. The impact of new sanctions is harder to assess. Mr Ahmadinejad's pugnacious optimism, however, may soon be tested.

Unlike free speech

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The neighbours

A sequel nobody wants

May 4th 2006 | CAIRO
From The Economist print edition

Mistrust of America, mistrust of Iran. Why won't this problem just go away?

A LARGE Middle Eastern country is accused of developing nasty weapons. America threatens to punish it, corralling allies for the endeavour. The country responds with bluster of its own, winning hearts in the region with appeals to Islam, Palestinian rights and the defiance of Western hypocrisy. Its neighbours, torn between street idealism and state interests, close their eyes and brace for the worst.

If onlookers farther afield have a sense of *déjà vu*, the feeling of many of Iran's neighbours is "here we go again". With the exception of Syria's, no government in the vicinity likes or trusts revolutionary Iran. And with the exception of Israel, no people in the region likes or trusts the Bush administration. As with Saddam Hussein's Iraq, most would love to see Iran's ambitions curtailed, but even more than those ambitions, they fear the repercussions if Iran gets clobbered.

The conundrum for its neighbours created by Iran's nuclear quest is even more complicated than the dilemma once posed by Saddam Hussein. Iran is much bigger than Iraq, with greater reach and a greater capacity to disrupt. It champions a far more potent ideology. Its brand of nationalist theocracy resonates not only with Shia minorities, but with other Islamist factions seeking a revolutionary model to give them power. Iran is admired not merely for its defiance, but for its skill in first letting the superpower destroy its closest enemies—Baathist Iraq and Taliban Afghanistan—and then feeding the fires that have burned America's fingers in Iraq.

Unlike Iraq under Saddam, Iran has ably exploited the Muslim world's suspicions of America. As a result, many Middle Easterners see the current stand-off not as the upholders of international law and order challenging a rogue state, but as the great powers ganging up to crush an upstart rival. Writing in the pan-Arab daily *Al Hayat*, Hassan Hardan, a Syrian author, describes a history of Western intervention to weaken Muslim states. Britain and France, for instance, acted to contain Muhammad Ali Pasha, Egypt's expansionist ruler in the first half of the 19th century, and the pair were at it again, this time with Israel, in the middle of the 20th century, when Egypt was fired by the Arab nationalism of Gamal Abdel Nasser.

"What exactly is the Iranian threat to America, or to Israel for that matter?" asks a Saudi security consultant. "Even if they get an atom bomb, they can't use it without inviting their own destruction." Balancing Israel's local nuclear monopoly would not be bad for peace, he suggests. The only real danger he sees is of a nuclear accident inside earthquake-prone Iran spreading fall-out across the Gulf.

Yes, you are my friend

Moreover, Iran still has several allies, a few friends by virtue of common enemies and plenty of

useful business connections. Syria's regime, for example, may be weak, but it has stood by Iran for 25 years. Between them, the two countries support a range of groups, some of which America regards as terrorists, including Hizbullah in Lebanon and such Palestinian factions as Hamas and Islamic Jihad. With an electorally legitimised Hamas now carrying the baton of Palestinian nationalism, the inspirational power of “resistance” undercuts the ability of pro-American regimes to challenge Iran. It is significant, for instance, that when Iran responded to Hamas's plea for Islamic support to replace withdrawn Western finance, Gulf countries such as Qatar and Saudi Arabia felt promptly obliged to offer matching sums.

Turkey has been an American ally for 60 years, and is no great friend of Iran's. Yet the two neighbours, along with Syria, share a mortal fear of their Kurdish minorities' irredentism. Turkey also profits hugely from Iranian trade and tourism. Its mildly Islamist government would be loth to see them shut off for the sake of sanctions, particularly at a time of rising anti-Americanism: in a recent Turkish poll, 74% of respondents said they saw America as the biggest threat to world peace.

Pakistan is another American ally, and a Sunni Muslim nuclear power that might be expected to be hostile to its fiery neighbour. Yet it will thank Iran if, as is likely, a big pipeline deal results in Iranian natural gas perking up the listless Pakistani economy, long reliant on imported energy.

The United Arab Emirates plays host to American military installations, and squabbles with Iran over the possession of three islands in the Gulf. But Iran is also a big trading partner and top investor in Dubai's booming property market. A recent editorial in *Resalat*, a Tehran daily, hints at why such rich, American-protected monarchies should respect their giant neighbour: “There is no doubt that security of investment in the region is tied to Iran's security, and now the time has come for us to mention this reality to the calculating leaders of the Arab countries in the region in precise and sympathetic language.”

Yet this Iranian view also hints at why many governments in the region lend quiet support to efforts to squeeze Iran: many Arab regimes mistrust it. They do not say so in public. Saudi Arabia, for instance, has publicly declared that it has no fear of Iran's nuclear programme, so long as it remains peaceful. And the recent trips to Moscow and Beijing by Prince Bandar bin Sultan, the Saudis' diplomatic and intelligence fireman, were actually aimed at thwarting American plans to gain Security Council backing for striking Iran, according to Russian diplomats.

But in private Saudi officials express grave doubts about Iran. The Saudis have long accused it of stirring up trouble among their own Shia subjects, as well as those in Gulf countries such as Kuwait and Bahrain, where Sunnis are in the minority. Though Iran has repatriated to Saudi Arabia some al-Qaeda men who had slipped in from Afghanistan, Saudi intelligence officials believe it still shelters others. Leaked Saudi intelligence papers also paint a lurid picture of Iranian involvement in Iraq.

“Iran is dangerous, even without a nuclear bomb,” writes Tariq Alhomayed, who edits Saudi Arabia's leading broadsheet, *Asharq Alawsat*. “It cannot be depended on by those seeking stability.” More ominously, his paper has run stories, citing a senior source in the Iranian army, claiming that Iran has a plan, in the event of American military action, to stage suicide and rocket attacks, not only against Israel or Americans in Iraq, but also against Arab countries allied to America.

Saudi Arabia has some experience of direct Iranian aggression. During the Iran-Iraq war, when the Saudis backed Saddam Hussein, they scrambled jet fighters to repulse Iranian aerial feints over their oilfields, while police in Mecca have often grappled with Iranian “pilgrims” using the *haj* as a chance for political agitation. Saudi Arabia's distrust also reflects its dislike for Iran's anti-monarchical model, and the opprobrium with which Wahhabist Sunnis regard Shias. No wonder

Saudi Arabia has close military ties with Pakistan, which may even extend to a (secretly promised) place beneath the Pakistani nuclear umbrella as well as the American one.

Sectarian feelings are weaker in less conservative Sunni countries, but still present. King Abdullah of Jordan caused a furore last year by speaking of a “Shia arc” stretching from Iran to Lebanon. More recently, Egypt's president, Hosni Mubarak, angered Arab Shias by implying that they were more loyal to Iran than to their own countries. Secular Egypt has had rocky relations with Iran ever since it briefly gave refuge to the shah after the 1979 revolution, and Iran retaliated by naming a Tehran street after the man who assassinated Anwar Sadat, Egypt's president.

...but I don't much like you

Other policy differences, related to Iran's championing of “resistance” when most Arab governments seek peace and quiet, may be more pressing. All America's Arab allies would like, for instance, to see Hamas sign the Saudi-sponsored initiative of 2002 that provides for the recognition of Israel. They would like to see stability in Lebanon, and resent the refusal of Iran-backed Hizbullah to tone down its militancy. Vocal support for Iran from the Muslim Brotherhood, which is the main opposition in many Arab countries, does not amuse the regimes it challenges.

Yet all these anxieties are not, in the short term, likely to be openly expressed as support for any aggressive Western initiative. “A strike against Iran would cause the whole region to explode,” declared Jordan's King Abdullah recently. “Dialogue, patience and diplomacy are the only solution.” In other words, given the choice between eventual acceptance of a nuclear Iran and the more immediate danger of a vicious backlash, most of the region's regimes would opt for appeasement.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Immigration policy

More marches, a growing backlash

May 4th 2006 | LOS ANGELES
From The Economist print edition

Eyevine

Illegal aliens are discovering their power—and their enemies

THE images filled the nation's TV screens: a million or more demonstrators, almost all of them Latino, marching peacefully through America's cities on May 1st in the hope that Congress would grant America's 12m or so illegal immigrants a right to reside in "the land of the free". On the same day, hundreds of thousands of poor Latinos forfeited their pay (and risked being fired) to emphasise their economic importance as both workers and consumers. As the banners proclaimed from Los Angeles to New York, "*Hoy Marchamos; Mañana Votamos*" (Today we march; tomorrow we vote).

The success of the protests was real enough, both in turning out the demonstrators and in boycotting the economy. At the twin ports of Los Angeles and Long Beach, only around 10% of the lorry-drivers turned up for work; in both California and Florida farm workers in their tens of thousands left the fields untended; in the Midwest, meat processors such as Tyson Foods closed shop for the day. Indeed, the economic impact would clearly have been still greater if several Latino leaders, including LA's mayor, Antonio Villaraigosa, had not been lukewarm about it.

Yet what if the success proves self-defeating, provoking not sympathy for illegal immigrants but a backlash against them? When illegal immigrants—80% of them Latino—were content to work in the background, picking lettuce, setting restaurant tables, digging ditches, cleaning houses or making hotel beds, ordinary Americans could simply ignore them. Now, they cannot: this week's display of Latino "people power" is the third in less than two months. First came the massive demonstrations, especially in Los Angeles, of March 25th, and then a "national day of action for

immigrant rights” on April 10th that brought marchers to the streets of well over 100 cities. Doubtless there will be more activism. The “We are America Coalition” organisers are promising a drive to register Latino voters, in what Mr Villaraigosa and others call the civil-rights issue of the new century.

Hence the political problem. Now that the hypocrisy of America's innately dysfunctional immigration policy is revealed, how do you reform that policy? President George Bush long ago proposed a guest-worker programme as a way of legalising the presence of America's undocumented residents. Taking their cue, Senators John McCain, a Republican, and Ted Kennedy, a Democrat, have sponsored a bipartisan bill that would provide both a guest-worker programme and a pathway to citizenship, subject to the payment of fines and taxes, for illegal immigrants.

But the Republican right, egged on by conservative TV and radio commentators, is in a fury on the issue. The latest outrage to their patriotic pride is a recording of a version of the national anthem in Spanish, about which even Mr Bush has been drawn to complain. For the head-banging persuasion, the answer to illegal immigration is obvious: “secure the border” (more especially with Mexico than with Canada), strengthen the law—and then enforce it. Last December the Republican-dominated House of Representatives overwhelmingly passed a bill, HR 4437, sponsored by James Sensenbrenner of Wisconsin, which would turn illegal residence from a civil offence into a criminal felony; would make felons, liable to imprisonment, of anyone helping an illegal immigrant; and would order the construction of a 700-mile fence at vulnerable parts of the Mexican border. In addition, illegal immigrants, once arrested, would be deported and there would be stiff fines for employers hiring illegal immigrants.

All of which, apart from embarrassing Mr Bush, amounts to political posturing of a high order. The financial, logistical and social implications of the Sensenbrenner bill are mind-boggling, not least when many illegal immigrants have children who are born in America and are therefore citizens. As Hillary Clinton pointed out, Jesus himself would fall foul of HR 4437. Indeed, Roger Mahony, Roman Catholic cardinal of the Los Angeles archdiocese, America's biggest, has said he would tell his priests not to abide by such a law.

Such a law will not, of course, pass. More sensible views prevail in the Senate, where the Judiciary Committee in early April crafted a compromise based on the McCain-Kennedy proposal. Conceivably, therefore, and perhaps fairly soon, the Senate will pass a bill to this effect. But whether that can lead to a compromise with the House that the president can sign into law is uncertain. The House is willing to downgrade illegality from a felony to a misdemeanour, but still insists on criminalising the undocumented. And with his approval ratings tumbling (on immigration, according to a new CBS poll, they are a mere 28%), Mr Bush's ability to twist arms seems to diminish almost by the day.

How much will the voters care? Quite a lot, Republican politicians fear. Hence their hard line in the House, even though to threaten employers is to antagonise the people who fill their campaign coffers. Plenty of Democrats worry too; hence their pro forma support for enhanced border security and their anxiety to stress that any “pathway to citizenship” is not, despite the accusation of conservative Republicans, another way of saying “amnesty”. A new Zogby poll of likely voters, released on May 3rd, showed that Americans prefer the House bill to the milder Senate proposal by two to one.

Arguably, both parties are right to be nervous. According to a Pew Hispanic Centre survey released in March, some 52% of Americans now think immigrants are a burden to the country, taking jobs and housing and straining the health-care system. Back in September 2000 the figure was 38%. Yet the Pew researchers note a contradiction: 80% in the survey now reckon Latino immigrants “work very hard” and “have strong family values”, whereas in April 1997 only 63% thought they worked hard and some 75% praised their family values. Similarly, although 53% say illegal

immigrants should be deported, nearly half of this group would actually allow them to stay under a temporary-worker programme.

Should the organisers of this week's protests—a decentralised coalition of trade unions and NGOs—therefore fear the adverse trends of public opinion? Perhaps not too much. One reason is that despite much-publicised arrests of illegal immigrants (and their managers) at one nationwide company last month, the reality is that America does indeed depend on their labour for low-paid, low-skilled jobs.

The second reason is that both Republicans and Democrats know that in the long term they will need Latino votes. According to Pew, only 39% of America's 41m Latinos are eligible to vote (compared with 76% of whites and 65% of blacks), but less than half of these 16m eligible Latinos actually voted in 2004. When Latinos do vote, it makes a difference; California's Republicans are still suffering because in 1994 they backed Proposition 187, which sought to deny social services, including education, to illegal immigrants. That prompted a massive Latino demonstration in downtown Los Angeles, a rise in Latino voter registration—and the shutting out of Republicans from power in the state legislature. *Mañana votamos*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Alternative energy

Canola and soya to the rescue

May 4th 2006 | AUSTIN, TEXAS
From The Economist print edition

As petrol prices rise, policymakers and venture capitalists are suddenly embracing funky alternatives. Will the fad last?

IN HIS long career in country music, Willie Nelson has always been on the leftish side of things. Now, at 73, he is in the vanguard. Mr Nelson, who lives on a ranch outside Austin, powers his Mercedes with the help of vegetable oil. He has even created his own line of this cleaner-burning diesel blend, “BioWillie”, which is distributed at several sites in Texas and is going national, too. Mr Nelson argues that it will help America's farmers, truckers and the environment while, at the same time, reducing dependence on foreign oil.

Enough for quite a few filling-stations

With high petrol prices causing havoc in Washington, DC, everyone is casting about for alternatives. Soyabeans, canola (rapeseed), switchgrass, anything, is being investigated. Even George Bush, a former oilman with a devout following in the industry, called last week for more research into ethanol and biodiesel—two key types of biofuels—and boldly predicted that “ethanol will replace gasoline consumption”. Jim Woolsey, a former head of the CIA and a borderline neoconservative, notes that developing biofuels is in the national interest, since it is high time America weaned itself off Saudi oil and thus stopped funding fanatical Wahhabism.

Unfortunately for Mr Bush's political fortunes, a biofuels revolution will not happen in time to ease America's current pain at the pump. Right now, ethanol—a clean-burning, high-octane alcohol typically derived from corn in America, or sugar in Brazil—accounts for just 3% of America's petrol use, though American cars can handle a 10% ethanol blend. Biodiesel is used even less.

But government policy is beginning to lift biofuels from obscurity. In Montana, Hawaii and Minnesota all petrol must contain 10% ethanol, while Washington state requires petrol and diesel to contain 2% renewable fuel by volume. For both ethanol and biodiesel, Congress has mandated

a near-doubling of production by 2012. Both blends, notes Mr Woolsey approvingly, need little new infrastructure to support them (unlike, say, hydrogen fuel-cell cars). Ethanol can be dispensed at regular petrol stations and works, within limits, in today's cars. Biodiesel fuelling stations, such as those for BioWillie, are popping up around America.

All is not perfect. Ethanol is typically blended with regular fuel, and a widespread switchover to an ethanol blend (a result of another provision of last year's energy bill) has contributed to some petrol shortages in Texas and elsewhere, as the supply chain creaks into life. Sceptics argue that growing crops for ethanol will burn more petrol than it will save. But others are persuaded, despite the teething pains. “If I had to bet 100 bucks, I'd bet on biofuels,” says Hunter Lovins, co-author of “Natural Capitalism”, adding that she would favour them even over plug-in hybrids and hydrogen fuel cells. Rich investors are also bullish. Richard Branson, a British entrepreneur who heads the Virgin conglomerate, recently announced plans to invest up to $400m in ethanol production.

Can production be scaled up? A recent bioengineering breakthrough means that it should soon be possible to convert plant products far more efficiently to ethanol. This lends promise to cellulosic ethanol—a product that can be made from agricultural “waste”, such as corn cobs or weeds, which is widely available. (Once corn kernels and sugar-cane sap have been taken away for sugar, they leave plenty of stalks and leaves behind.) The most promising source of cellulosic ethanol, say experts, is switchgrass, a native American grass that grows naturally in the prairie heartland and thrives in the poor Mississippi Delta.

Biodiesel, as yet, is a smaller enterprise. Its plants require less capital than those for ethanol. It is growing fast—sales volume tripled, to 75m gallons, between 2004 and 2005—but that is still a drop in the tanker of the 60 billion gallons of diesel that Americans consume each year. Much of the stuff is made from soyabeans, and Jeff Plowman of Austin Biofuels, a tiny start-up, notes that soyabean futures are tracking the price of heating oil for the first time. In Texas, Mr Plowman also sees potential for cottonseed oil, a byproduct of cotton production. Elsewhere, there is even talk of producing biodiesel from pig manure.

A few hiccups have curbed the enthusiasm. In Minnesota, a mandate to have 2% of diesel made from soya was suspended last year when truckers began to complain of clogged filters. But it was fairly quickly reinstated.

Could biofuels, in addition to easing the strain on the environment and on wallets, help to save American farms? Some policymakers certainly hold out this dream, particularly in the Midwest, where ethanol and biodiesel production is concentrated. Montana's Democratic governor, Brian Schweitzer, who uses biodiesel (made for example from canola) in his own Volkswagen Jetta, bubbles with optimism about a technology that he hopes “will jump-start rural America”. He points out that America exports masses of wheat, soyabeans and corn, and talks of “convert[ing] those export acres to biofuels”. When the 2007 farm bill is debated, he hopes for “a vision that helps American farmers once again produce their own horsepower on their own farms”. This “vision” would include federal crop insurance for farmers who grow canola, safflower and camelina, bringing them up to the level of wheat and soyabeans.

The notion of American farmers defying the tide of capitalism to grow their own fuel is a glorious delusion. But Mr Schweitzer is right that Congress has some big decisions to make about biofuels. To what extent, if any, should government subsidise this nascent industry? Already it has received plenty of help. Ethanol producers get a tax credit worth 51 cents a gallon, much to the delight of industry powerhouses such as Archer Daniels Midland. There is also a 54 cents-a-gallon tariff on imports of ethanol from Brazil. Starting with the removal of that tariff, Congress needs to rethink its wrong-headed energy policies. Nathanael Greene, of the Natural Resources Defence Council, argues that the federal government's most important immediate step should be to enact a loan

guarantee to create America's first cellulosic ethanol plant, which would probably be built in Idaho.

If biofuels do take off, environmentalists and policymakers will still be unable to relax. Mr Greene emphasises, rightly, that biofuels are “not a silver bullet”. His organisation argues that although American production could rise to 100 billion gallons of biofuels by 2050, such changes also need to be combined with improved fuel efficiency and better city planning. (Environmentalists also worry about the pesticides involved in a big American agricultural push.) More flex-fuel vehicles, which can take up to 85% ethanol blended with petrol, would be particularly sensible. On such matters, the rest of the world has led the way.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Sustainable universities

From Crimson to green

May 4th 2006 | CAMBRIDGE, MASSACHUSETTS
From The Economist print edition

A sudden passion for waterless urinals and biodiesel shuttles

WHEN student activists start trumpeting new causes, university administrators usually batten down. But greenery, the new on-campus craze, is different. Last week Harvard's outgoing president, Larry Summers, enthused about energy-efficient buildings at the university's first "campus sustainability" conference. He promised to develop Harvard's new piece of land in Allston, just across the Charles river, in the "best and most sustainable way we can". One professor proposed a two-acre farm, allowing Harvard to grow (a very small amount of) food.

How times have changed. Ten years ago, when your correspondent studied at Harvard, "energy conservation" meant staying in bed an extra hour. These days dorms compete to turn out the lights and recycle. Some places are flush with waterless urinals. Tufts University in Boston has switched to water-saving washing machines and has an all-electric, non-emitting vehicle to deliver post. At the University of Michigan, one recently renovated building uses glass from aircraft windscreens in its windows and recycled tyres for rubber flooring. At the University of Colorado, students have even taxed themselves to pay for renewable power. Harvard's Kennedy School of Government and Faculty of Arts and Sciences have followed suit.

Fear of global warming, in part, is driving this. Many universities are the size of small cities, so their emissions count. Fair Harvard belched out about 320,000 metric tonnes of carbon-dioxide equivalent last year, nearly as much as Djibouti. Far more important is the bottom line, especially as oil prices soar. Harvard's green campus loan programme, which lends money interest-free to departments to green themselves with energy-efficient kitchen equipment or lighting upgrades, claims a return on investment of 33%—better than Harvard's endowment. The average payback time for a loan is three years. "I like that kind of arithmetic," noted Mr Summers, a former treasury secretary, as he announced a doubling of the size of the fund to $12m a year.

Even as universities show off their green buildings, students are moving on to a new frontier: the curriculum. At Harvard, some design-school students worry that their coursework does not include enough on green building. Another problem is that sustainable-development issues are cross-disciplinary, and Harvard's professional schools do not much care to speak to each another. Developing the new campus in Allston, students say, provides a perfect opportunity for faculty to come down from the clouds, reach across disciplines and act locally. Are Harvard's great minds up to the task?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Zacarias Moussaoui

The one who got away

May 4th 2006
From The Economist print edition

Sense and reason overcome the desire for revenge

VIRGINIA jurors are not known for their leniency. Yet they have spared from the ultimate sanction the only person who has been convicted of direct responsibility for the worst-ever atrocity on American soil, and probably the only one who will be prosecuted. Unable to reach the unanimous verdict required for the death penalty, a jury in Alexandria decided after seven days of deliberation that Zacarias Moussaoui, a 37-year-old Frenchman of Moroccan origin, should be sentenced to spend the rest of his life behind bars for the attacks of September 11th 2001.

The prosecution had called for the death penalty, arguing that “there is no place on this good Earth” for him. The defence recommended “the long slow death of a common criminal” in prison, rather than martyrdom through execution. Mr Moussaoui himself had seemed to change his mind during the four long years of his trial, at first protesting fiercely that he had nothing to do with, and knew nothing about, the attacks, then suddenly claiming that he was a central figure in the plot. He had planned, he claimed, to fly a fifth suicide mission into the White House that day, and would certainly have done so had he not already been behind bars, arrested four weeks earlier on a minor immigration charge.

He continued to vacillate, screaming out “You'll never get my blood: God curse you all!” when the jury first found him “eligible to be executed” on April 3rd. But during the final six weeks of hearings, he seemed intent on goading the jury into deciding that he should indeed be put to death, defiantly claiming that he had “no regret, no remorse”, and wishing that it could be September 11th every day. Then he changed tack again, telling the jury that life imprisonment would be “a greater punishment than being sentenced to death”, before crying out gleefully, “America, you lost!” when the jury at last handed down its verdict on May 3rd. He can still appeal his sentence.

Was the jury moved to clemency, as some believe, by descriptions of Mr Moussaoui's wretched poverty-stricken childhood in France, before he became a fanatical Muslim extremist in London in the 1990s? Did they believe the defence argument that, far from having a star role in the September 11th tragedy, he was in fact a bungling fringe player, a paranoid schizophrenic with grand delusions but little or no knowledge of the main plot? (The presiding judge, Leonie Brinkema, told trial lawyers in closed session that she herself did not believe Mr Moussaoui's claim that he knew details of the plot in advance.) Were some jurors possibly even influenced by the knowledge that the Supreme Court is currently considering whether lethal injections—the method of execution used by 37 American states as well as the federal government—should be deemed cruel and unusual punishment and, as such, unconstitutional?

Some or all of these factors may have come into play. Three jurors certainly felt that Mr Moussaoui's knowledge of the plot was scanty. Another three said that if he was involved in the attacks, his role was a minor one. Many of the victims' families were bitterly disappointed with the verdict. That was only to be expected.

During the last weeks of the sentencing trial, several jury members broke down as they heard the harrowing descriptions of shattered lives. For the first time, the cockpit recording of passengers struggling to take control of United Airlines Flight 93, which crashed in a Pennsylvania field, was played in public (see Lexington). Rudolph Giuliani, mayor of New York at the time, described seeing a man clutching a briefcase as he jumped from one of the burning twin towers. A woman tried to hold down her skirt in a last desperate attempt to protect her modesty. Two others were clasping hands as they plunged 1,000 feet to their deaths.

The evidence was both gruelling and horrifying. But in the end, the jury—and perhaps most Americans too—appears to have wanted to deprive the man who revelled in all this of his moment of martyr's glory. They may also have wanted to show America's justice system at its best.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Upstate New York

Facing Destiny

May 4th 2006 | SYRACUSE
From The Economist print edition

A struggling region confronts its self-appointed saviour

ABOUT 250 miles north-west of New York City, in the heart of New York state, lies the city of Syracuse. Like the rest of upstate New York, Syracuse has been the victim of suburban sprawl and deindustrialisation. It is poor (with almost 30% of residents below the poverty line), shrinking (its population has fallen by a quarter since 1970) and broke (its mayor has declared “a new era of crisis”). But unlike the rest of upstate, Syracuse has been offered a solution to its woes: Destiny USA, the biggest mall in the world.

Saving upstate New York is a key issue in this year's race for governor. Eliot Spitzer, the front-runner and current attorney-general, compared the region to struggling Appalachia in a speech in March. But how can it be rescued? Destiny represents the apex of the optimistic view that large projects will lift up the area. If it is built, some say, the mega-mall could save Syracuse and its region and—because it would operate free of fossil fuels—could be a model of how to save the world.

This bold scheme has been hailed by George Pataki, New York's governor, and by Chuck Schumer and Hillary Clinton, the state's senators. Yet politicians in Syracuse itself are more sceptical. City officials and the mall's developer are warring over Destiny's future, and show no signs of letting up. Destiny could save the city; it could also be an oversubsidised flop.

No one doubts that Destiny is a revolutionary concept. As imagined by Robert Congel of Pyramid Companies, the project's developer, the $20 billion mall would be powered by alternative energies and cover some 800 acres, luring tourists to shops, restaurants, an aquarium, a water park, a golf course and thousands of hotel rooms, among other attractions. Mr Congel also wants to build a 325-acre research-and-development park just north of Syracuse, to rival Silicon Valley.

It is an epic vision, but one rife with uncertainty. Mr Congel has yet to present an actual plan to the city. Meanwhile, many fear that Destiny's costs to the public—Mr Congel is seeking federal, state and local subsidies—may outweigh its benefits. The research park was delayed as local businesses rebelled against efforts to seize their land. State officials barred Mr Congel from building Destiny in Syracuse's inner harbour after he refused to proceed without extra tax breaks. The one Destiny-related project that Mr Congel is committed to—the expansion of Syracuse's Carousel Centre mall, which is already run by Pyramid—would simply make a big mall bigger, and is mired in a bitter quarrel.

When Mr Congel proposed his scheme for the mall's expansion, the drowning city gasped with relief. But now Syracuse's mayor, Matt Driscoll, worries that a 2002 deal with Pyramid could cost Syracuse up to $310m in lost property-tax revenues. In March, the state Supreme Court ordered the city to honour the deal. Mr Driscoll is weighing an appeal, while Mr Congel has offered a compromise that includes demands that the city cede control of construction details and issue up

to $6 billion in bonds to pay for the project.

Some say that Syracuse is crazy not to embrace Destiny. A stack of steel beams near the Carousel mall is adorned with signs that read, “Some see steel, we see jobs”. Syracuse's long-term problems have become even more acute in the past decade, and the city relies heavily on support from the state (or rather, tax money from Manhattan's bankers). Destiny could draw millions of tourists to upstate New York, create 250,000 jobs and generate $65 billion in net taxes over 30 years, according to the company's website. But such figures are based on the unknowable future and a plan that does not exist.

What will truly revive Syracuse and upstate, according to E.J. McMahon of the Manhattan Institute, a think-tank, is not mega-malls, but reforms to make the region more competitive. At present, the state offers tax breaks to projects such as Destiny and businesses in so-called Empire Zones, scattered throughout New York. Instead, argues Mr McMahon, leaders should address the factors that keep businesses from thriving in the first place: employment costs (settlements for workers-compensation cases are the second-highest in America), energy costs (electricity prices are 63% above the national average), stifling regulations and the second-highest tax burden in the country.

Upstate New York is not a lost cause. It is chock-full of good universities and has an able, educated workforce. More jobs are what it needs. Thus far, New York's leaders have preferred to support projects such as Destiny, for all its complications, rather than tackle thornier issues such as regulation and tax reform. New York's next governor may have to show more courage.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Celebrity lawsuits

Show me the money

May 4th 2006 | NEW YORK
From The Economist print edition

Greed, sex and deception liven up a boring question of federal jurisdiction

THE words “probate exception” do not titillate. And yet a saucy, decade-long legal battle over a fortune of nearly half a billion dollars hinges on this clause, which deals with the boundaries between state and federal courts in estate disputes. At issue is whether Vickie Lynn Marshall, a former Playboy pin-up and exotic dancer better known as Anna Nicole Smith, will get anything from the estate of her late husband, J. Howard Marshall, an oil tycoon with assets estimated at $1.6 billion.

On May 1st, Ms Smith won an important victory. Although her inheritance remains uncertain, the United States Supreme Court (no less) unanimously ruled that she could pursue her case in federal court. One suspects the justices were enjoying themselves, for once.

The details of the case have kept the tabloids busy. Marshall met Ms Smith when he was wheeled into the Texas strip club where she was dancing. After a courtship of a few years, full of expensive gifts (such as $2m in jewellery) and pricier promises, the two were married in 1994. She was 26, he was 89. Fourteen months later, Marshall dropped dead of a heart attack, leaving nothing to Ms Smith in his will.

The dispute has seen the inside of five courthouses since 1995, when Ms Smith first sued Marshall's son, E. Pierce Marshall, in a Texas state court, accusing him of cutting her off from the estate. She insists that Marshall promised her half his fortune. His son, seething at what he considers Ms Smith's gold-digging (he calls her “Miss Cleavage”), argued that Marshall had already given her $6m in gifts and did not intend to leave her more. Ms Smith got nothing from her first lawsuit, but was awarded $475m in a federal bankruptcy ruling in California in 2000. A federal district court judge cut this award to $89m, and then a US appeals court ruled that the issue was not a federal matter.

The Supreme Court justices, who heard arguments in February, have not weighed in on the merits of Ms Smith's case. Indeed the buxom blonde, who sniffled disingenuously during the hearings, has hardly been a sympathetic figure. The court's opinion, written by Justice Ruth Bader Ginsburg, is a technical one that measures the scope of the probate exception. It leaves to state courts the probate or annulment of a will and the administration of an estate. This puts Marshall's estate back into play, and ensures that bitter legal wrangling will stretch on for years.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

Remembering Flight 93

May 4th 2006
From The Economist print edition

An unmissable film about September 11th

THE first time audiences see the passengers and crew of United's Flight 93, they are killing time before boarding. Passengers put in pointless calls to their offices. The pilots chat about the weather—a perfect day for flying, as it happens. One flight attendant says she wants to cut back on her hours so that she can spend more time with her babies. The last time these people are seen, they are hurtling towards a field in Pennsylvania. In the intervening 90 minutes the audience sees 40 ordinary people go through a living hell—and history turn on a hinge.

United 93—a regular passenger plane that was flying from Newark to San Francisco—was the odd man out of the four planes that were hijacked on September 11th. It was the only one that failed to hit its intended target (which was probably the Capitol). And it was the only one where the passengers fought back. “United 93”—the first big-screen dramatisation of September 11th—is thus more than a film about a hijacking. It is also a film about the first counter-strike in the war against radical Islam—an improvised revolt that saved the American government from decapitation and demonstrated the heroic resourcefulness of ordinary people in extraordinary circumstances.

The film has stirred an angry debate. Isn't Hollywood hijacking the hijacking for its own money-grubbing purposes? Isn't life hard enough without watching people hurtle to their death in a metal tube? And—the most insistent question of all—isn't it too soon for America to relive the horror of September 11th? Trailers for the film were greeted with boos in New York and Los Angeles, and were subsequently pulled. Fully 60% of people tell pollsters that they will not see the film.

All this is understandable. Nobody wants to have their noses rubbed in horror for the sake of it. And for the most part Hollywood is incapable of dealing with even the most heavyweight subjects—terrorism included—without indulging in a mixture of sensationalism and idiocy. But September 11th cannot remain off limits to popular culture. Bruce Springsteen (with “The Rising”) and Neil Young (with “Let's Roll”, a hymn to Todd Beamer, one of the heroes of United 93) have both addressed the subject. A&E, a cable channel, has already made a film about Flight 93. Several films about September 11th are in the works, including one by the more-miss-than-hit Oliver Stone. And “United 93” is about as good as it gets—the most vivid reminder to date of what happened on September 11th.

There is nothing sensational about the film. Its director, Paul Greengrass, made his reputation with documentaries, and it is hard to watch “United 93” without feeling that you are watching a fly-on-the-wall real-life drama rather than a Hollywood fiction. Mr Greengrass researched the film meticulously, conducting more than 100 face-to-face interviews with family members and civilian and military personnel, learning about everything from what they wore to what they said on the phone. He used either unknown actors or real-life pilots and air-traffic controllers to add to the sense of *actualité*. Ben Sliney, the head of the FAA command centre, who eventually took the decision to close down American airspace, plays himself.

Nor is there anything “too soon” about it. How can it be “too soon” to be reminded of the defining events of the new century—events which led, only this week, to a life sentence for the only terrorist arrested for the attacks, Zacarias Moussaoui (see article)? Many Americans have done their best to forget September 11th—driven partly by a desire to return to a normal life and partly by a desperate hope that nothing like that will ever happen again. The terrorist threat? A recent CBS News poll on April 28-30th found that only 3% of people think that terrorism is the most important issue facing the country. Airport security? A bore and a farce. The war against terrorism? A hopeless mess.

Many Americans have become so enraged about the Bush administration's policies that they are more interested in complaining about the war in Iraq than in grappling with Islamic radicalism. It is a sign of the way America is turning in on itself that Mr Young is now howling “Let's Impeach the President” rather than “Let's Roll”. “United 93” is not too soon but perfectly timed—a striking contribution to a debate that is in danger of becoming stale, and a vital reminder of what the fight is about.

A world out of control

Mr Greengrass presents the four hijackers not as monsters—that would have been easy—but as ordinary people driven to do monstrous things. The film opens with them praying in their hotel room. Later, the lead hijacker looks as if he is racked by doubt. But then they matter-of-factly slit one flight attendant's throat “in the name of God” and slaughter the two pilots. The film is also riveting in its portrayal of a world in chaos. Conspiracy theorists revel in the idea that the fate of United 93 was carefully planned—that the air force shot it down deliberately or that, in the more fevered versions, the Bush-Cheney regime planned the atrocities in the first place. But nothing in the film is careful or controlled. The air-traffic controllers cannot come to terms with what is happening. Mr Sliney cannot get any sense out of the Pentagon. The president is AWOL. Lines of communication are broken. The main source of information is CNN.

All this makes for a harrowing 90 minutes. But for all that, “United 93” also has a message of redemption. Mr Greengrass eschews the jingoism that followed September 11th. He shows that the passengers who took over the flight were frightened and confused, and that their revolt was a wild and disorganised affair. Nevertheless, the film contains a glimmer of hope. The victims of the hijacking banded together and decided that, if they were going to die, the least that they could do

was to prevent their hijackers from fulfilling their mission. That message of unity against terror is both salutary and necessary.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Bolivia

Now it's the people's gas

May 4th 2006 | CARACAS, LA PAZ AND SÃO PAULO
From The Economist print edition

EPA

Evo Morales takes on the gas multinationals, challenges Brazil, and aligns his country with Venezuela and Cuba

AS POLITICAL theatre goes, it was pure agitprop. Evo Morales chose May 1st, his hundredth day in office as Bolivia's president, to lead troops into his country's biggest natural-gas field, operated by Brazil's state-owned oil company, Petrobras. Wearing an oilworker's hard hat, he read out a nine-point decree under which the Bolivian state proclaimed its control of the country's oil and gas industry. “The plunder has ended,” Mr Morales, a socialist of indigenous descent, declared.

In the main square in La Paz, the capital, the president's supporters turned their May Day demonstration into a celebration. The reaction of the companies affected—and their national governments—ranged from caution to wounded surprise. José Sérgio Gabrielli, Petrobras's president, called the measures “unilateral and not friendly”—strong stuff from the normally conciliatory Brazilians. Spain's Repsol YPF, the second-largest investor, complained that promised negotiations had not taken place, while the Spanish government expressed “deep concern”.

Bolivia's reserves of natural gas are the largest in South America after Venezuela's. The deposits were discovered after the oil industry was privatised a decade ago. Foreign companies, including France's Total, and BP and BG Group of Britain, as well as Petrobras and Repsol, have invested some $5 billion in the country.

More is at stake in Bolivia than gas. Since his election in December with 54% of the vote, Mr Morales has talked like a revolutionary populist but given some signs of pragmatism. He has

enjoyed good relations with social-democratic presidents in Brazil and Chile as well as with Cuba's Fidel Castro and Venezuela's populist leader, Hugo Chávez. Now he appears to have tilted away from moderation: the nationalisation decree came hours after he returned from Havana, where he signed a “people's trade agreement” with Messrs Castro and Chávez.

The tone of the nationalisation decree is grandiloquent. “The state recovers title, possession and total and absolute control over these resources,” it begins. Yet it was not unexpected. It fulfils a campaign promise. The decree implements—but goes further than—a law approved last year after weeks of street protests led, among others, by Mr Morales and a referendum in 2004 in which 92% backed nationalisation of oil and gas. That law required the companies to cede production to YPFB, Bolivia's former state energy monopoly, which would set its price and sell it.

The decree puts this into immediate effect. It also gives the companies 180 days to accept new contracts whose terms will be set after a government audit. In the interim, the state's take from the two largest fields will rise to 82% from 50% (itself an increase from 18% a year ago). This boosts the government's annual gas revenue by $320m to $780m.

Secondly, YPFB will take a majority stake not just in the main gas and oil production companies, but in refineries and pipelines. Previously, the foreign companies had 51%, with 49% split between private pension funds and the government, which used the dividends to pay a pension to older Bolivians. Those shares will be handed over to YPFB, potentially wrecking the pension system. (Since the funds have sold some of the shares, this provision may be unenforceable.) The extra shares needed for a majority stake will be “nationalised”—by unspecified means.

Bolivia needs outside capital and technology to develop its gas industry. Without new investment, by the end of next year it might struggle to fulfil its gas export contracts with Brazil and Argentina, says Carlos Alberto López, a consultant in La Paz. A recent landslide at one gasfield briefly cut exports, a sign that output is close to capacity.

Mr Morales seems to be gambling that the companies will not walk away. Bolivian gas accounts for almost 5% of total energy consumption in Brazil, its main market. That mutual dependence could lead to a deal on less draconian terms. One industry source calls the ceremony a “pantomime” to calm the radicals among Mr Morales's supporters, and forecasts that the government will offer the companies a 50/50 revenue split.

Yet this brinkmanship, if such it be, could backfire. Several companies may go to international arbitration to enforce their contracts. In that case, Mr Morales could turn to Mr Chávez. YPFB is being advised by lawyers and technicians from Petróleos de Venezuela (PDVSA). But Venezuela's president fired most of his state oil company's most experienced staff after a strike three years ago, and the company's output at home is falling steadily.

Mining and forestry will be the next to face higher taxes, officials said. But Mr Morales is grasping for more than control over natural resources. Despite granting wage increases to teachers and doctors, he is starting to lose the support of the middle class. In one poll, his approval rating has fallen from 80% to 68% since he took office. Nationalisation will restore his popularity ahead of elections on July 2nd for a constituent assembly.

Ostensibly, this is to write a new constitution to give more power to the impoverished indigenous majority. But Mr Morales's dream, says Carlos Toranzo, a political scientist, is to emulate Mr Chávez, who used a similar assembly in 1999 to seize control of all state institutions. Under agreements signed in January, Venezuelan and Cuban officials are advising on voter registration ahead of the assembly elections. That mimics a much-questioned registration drive which helped Mr Chávez defeat a 2004 recall referendum.

Already, Mr Morales has clashed with the judiciary. He accused Eduardo Rodríguez, a former head of the supreme court, of treason for allowing the armed forces to transfer Chinese-made missiles to the United States while acting as the country's caretaker president last year.

Even if he wants to follow Mr Chávez towards elected autocracy, he may be thwarted. To change Bolivia's constitution a two-thirds majority is required, and he may fall short. The outcome will be "more like reform than revolution," predicts Walter Guevara, a political consultant.

Venezuela 1, Brazil 0

The nationalisation—and especially the circumstances in which it was done—reverberated around South America. It looked like a victory for the regional plans of Mr Chávez, and a defeat for those of Brazil's president, Luiz Inácio Lula da Silva. In Havana, Mr Morales signed an agreement under which Bolivia joins Cuba and Venezuela as the third member of the Bolivarian Alternative for the Americas (known by the acronym ALBA, which means "dawn" in Spanish). This alliance is supposed to be an alternative to a Free Trade Area of the Americas favoured by the United States. "Only in Cuba and Venezuela do we find unconditional support," gushed Mr Morales.

Under trade preferences which expire in December, Bolivia exports some $160m a year to the United States. Those exports support 100,000 jobs, many in textile firms and two-thirds of them in El Alto, a restive satellite city overlooking La Paz. Bolivia has not asked for the preferences to be extended and the United States has not offered to do so. The alternative Mr Morales has chosen involves barter trade by governments. Mr Chávez has offered to buy all of Bolivia's soya crop (its second-biggest export) in return for all the diesel the country imports.

Mr Chávez constantly trumpets his support for regional integration. What he means by that is an anti-American political alliance, under his leadership and based primarily on the control and distribution of energy. Last month, he said that Venezuela would pull out of the five-country Andean Community because two of its members, Colombia and Peru, have signed free-trade agreements with the United States. Bolivia, which is also a member, may now also leave.

Mr Chávez's strategy clashes with Brazil's. It yearns to be the leader of a South America united by trade and co-operation between the Andean Community and Mercosur, the four-country block based on Brazil and Argentina. At Brazil's invitation, Venezuela is negotiating full membership of Mercosur. Yet Mr Chávez is stirring up trouble in that group too. If Mercosur "had to die" for something better to emerge, so be it, he said at a meeting with two of its presidents last month.

Lula's response to Mr Morales's decree was conciliatory. After an emergency cabinet meeting, he said Bolivia was within its sovereign rights. He invited Mr Morales, together with Mr Chávez and Argentina's president, Néstor Kirchner, to emergency talks on May 4th. But Bolivia's alliance with Venezuela, and its bullying of Petrobras, amount to a clear snub to Brazil.

Mr Morales may yet revert to a more pragmatic course. But his alliance with Mr Chávez and Mr Castro, even more than the nationalisation, sends a worrying signal that Bolivia may be moving backwards towards statist nationalism. If that is so, all the precedents suggest that while its government may get richer, its people are likely to grow even poorer.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Canada

A practical man

May 4th 2006 | OTTAWA AND VANCOUVER
From The Economist print edition

The prime minister settles a trade dispute and offers a tax-cutting budget

Get article background

HIS brusque and bossy manner means that Stephen Harper may never win the affection of Canadians. But after three months as prime minister, the Conservative leader is winning respect as a politician who gets things done. The past few days brought two examples of that. On April 27th, Mr Harper announced a surprise settlement of a protracted trade war with the United States over softwood lumber. Five days later, his finance minister, Jim Flaherty, presented a budget which won applause for lowering taxes without sacrificing fiscal discipline.

To some Canadians, the lumber deal looked like surrender. In 2002, for the fourth time since 1982, the United States levied countervailing duties on exports of wood from Canada, its partner in the North American Free Trade Agreement (NAFTA). The American government has mainly failed to persuade NAFTA (and other) panels of its case that Canada subsidises lumber. It seemed that the battle would be fought to the last lawyer.

But Mr Harper is eager to improve relations with George Bush's government. After a week of talks, both sides agreed a draft deal which in essence returns to the previous regime of managed trade. The Americans will drop the sanctions, and return $4 billion of the $5 billion they have collected in duties. Canada accepted that its share of the American market be capped at 34%. It agreed to impose export taxes and limit shipments if prices in the United States fall much below their current—unusually high—levels.

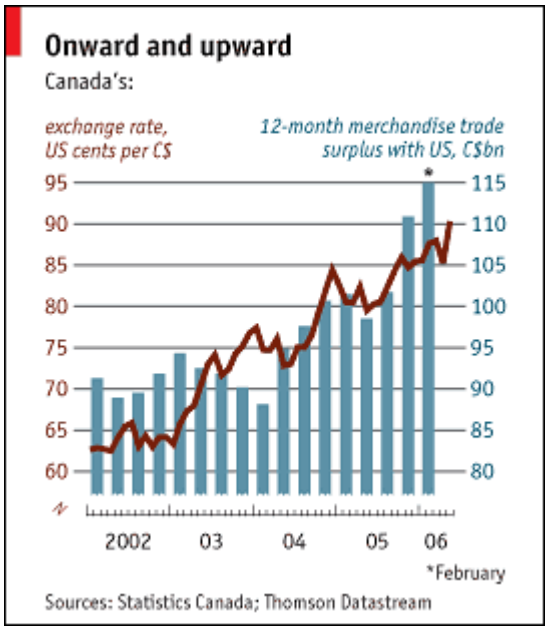
The previous Liberal government had held out for better terms. But Mr Harper won the grudging acceptance of battle-weary sawmill managers, and the provincial politicians who administer the forests. Some are quietly relieved that the time-consuming and costly dispute may soon be over. The biggest losers are Americans, who will pay more for their houses.

The Conservatives' first budget strikes the same pragmatic note. It contains 29 different tax breaks. These include a campaign promise to shave one percentage point from the sales tax, and a tax credit on public-transport tickets aimed at encouraging commuters to leave their cars at home. Perhaps most importantly, the gap between corporate taxes in Canada and the United States will narrow.

Unlike their Republican neighbours to the south, Canada's Tories are determined to maintain their predecessors' record of balanced budgets, stretching back eight years. They promise to rein in government spending, which showed signs of running away under the Liberals. Last year's entire C$8 billion ($7 billion) surplus will go towards paying down the national debt. From now on, C$3 billion will be set aside each year for debt reduction. That would reduce the ratio of public debt to GDP, already the lowest of any of the G7 large industrial economies, to 25% by 2014.

Mr Flaherty could afford this combination of largesse and virtue because Canada is among the chief beneficiaries of the current boom in commodity prices. Corporate profits are at record levels, and the unemployment rate is at a 30-year low. The finance department estimates that income-tax collections will climb by almost a fifth in the three years to 2008.

On budget day, the Canadian dollar edged over 90 American cents (see chart)—its highest level for 28 years. That is a challenge for manufacturers. But thanks to oil and minerals exports, Canada is running a big trade surplus with its neighbour.



The strong currency has helped contain inflation even as the economy runs at full tilt. It has also brought relief at the petrol pump, since oil is traded in American dollars. Philip Cross, the chief economist of Statistics Canada, reckons that while Americans are paying over 70% more for gasoline than three years ago, prices in Canada are up by only about a third.

The loonie, as Canadians call their dollar, may reach parity with the greenback within the next 18 months, reckons Clément Gignac of the National Bank of Canada. Others take a less rosy view, forecasting a weaker Canadian dollar as the commodities boom runs out of steam.

Though Mr Harper leads a minority government, he should have little trouble pushing through the budget and the softwood lumber deal. He has assuaged the separatist Bloc Québécois by pledging “a new approach” to sharing the federal government's surpluses with the provinces.

In a year or so, the prime minister may well call an election at which he will seek a Conservative majority. The Liberals have long tried to paint Mr Harper as a reactionary ideologue. In different ways, with the softwood deal and the budget, he is doing his best to give a rather different impression to the voters, as a practical man of the middle ground.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Mexico

Just (don't) legalise it

May 4th 2006 | MEXICO CITY
From The Economist print edition

A muddle over drugs

AP

Just trying to think straight, hombre

IT WAS a particularly abrupt and awkward about-turn. On April 28th, Mexico's Senate approved, by a vote of 53 to 26, a new law that would make possession of small amounts of drugs—both soft and hard—legal while stiffening penalties for dealing. On May 2nd President Vicente Fox's spokesman called the bill “an advance” and said his boss would sign it into law. But just a day later, Mr Fox sent the bill back to Congress, requesting changes.

Under the bill, not only would it be legal to have up to 5 grams of marijuana, but half a gram of cocaine and 25 milligrams of heroin would also be permissible. So would small quantities of LSD, amphetamines, ecstasy, mushrooms and peyote (a hallucinogen popular with some indigenous tribes).

Supporters of the change hope it will accomplish two things. The first is to reduce corruption—at present, officials have discretion on whether to prosecute individuals caught with small amounts of drugs. The second is to allow police and prosecutors to concentrate on drug-trafficking gangs, for which they would have broader powers.

Mr Fox backtracked after American officials joined a chorus of local criticism of legalisation. They urged Mexico to review the bill, to prevent “drug tourism”. Mexico's government has been one of the United States' most loyal allies in the “war” on drugs. Under Mr Fox, the heads of several of the biggest drug gangs have been arrested. But many of their henchmen remain at large. One drug kingpin, Osiel Cárdenas, is widely believed to continue to run his business from inside his jail.

In recent years, drug-related violence has spread across northern Mexico. Nuevo Laredo, the most violent of the border towns, has been without a police chief since the last man to hold the job resigned in March. He wished to leave in a different manner to his predecessor, who was murdered. No one else has been willing to take the post.

Given the voracious demand for drugs north of the border and the power of the trafficking gangs, the bill might not fulfil its aims. But it does attempt to distinguish between a public-health problem and organised crime. One possibility is to legalise possession only for registered addicts. But Congress has gone into recess, and will be largely replaced in an election on July 2nd. Drug policy has gone up in smoke.

Japan's economic recovery

Depends on where you are

May 4th 2006 | NAGASAKI AND MORIOKA
From The Economist print edition

The cheerful numbers mask wide regional differences

THE good news continues about Japan's economic recovery. In its latest outlook for the economy, released on April 28th, the usually cautious Bank of Japan noted healthy exports and business investment, along with rising household income and consumption. It declared Japan's output gap, between what the economy can produce and what it is actually producing, at long last to be closed. The bank's prediction of a “sustained period of expansion” for the coming year would, if true, make this recovery, which began in 2002, the longest post-war unbroken expansion.

This week came more striking news. In the year to April, Japan's labour force rose for the first time in eight years: the number of those in, or looking for, work rose by 150,000, to over 66.5m. The rise seems to show that people who dropped out of the labour market when prospects looked bleak are now willing to rejoin it. And, with a working-age population that is already shrinking, more women and older people than before are seeking work. Over the past three years, some 220,000 women have joined the labour force, for instance; so, over the past five years, have some 450,000 people aged 60 and over.

There are now—just—more jobs on offer in Japan than applicants. Not all the jobs are permanent ones. Yet for the first time since the start of the decade, the number of full-time jobs on offer is growing again: in March, the number in regular employment grew by 0.6%, twice the pace of recruitment of those in part-time work or on temporary contracts.

Yet there is no disguising the strong regional bias to the employment picture. Job prospects are generally bright in Japan's powerhouse—the nearly uninterrupted megalopolis that stretches south-west in a strip nearly 300 miles (480km) long down Japan's main Honshu island, from Tokyo, through to Osaka, Japan's second city, to beyond Kobe. Half-way down the strip, in Aichi prefecture, home to Toyota, the world's second-biggest carmaker, and a slew of companies dependent upon it, nearly 1.8 jobs are on offer for every job-seeker; Brazilians of Japanese descent are being recruited to come for work. And in Tokyo, despite the capital's high business costs, 1.6 jobs exist for every applicant.

Go to the extremities of Japan's long island chain, however, and the picture is less bright. Subtropical Okinawa, perched out at sea at Japan's southernmost end, boasts fewer than half as many jobs as applicants, for all its beachside attractions. Its economy has long relied on income from America's military bases, and on subsidies from central government, most recently to help make it a call-centre hub. Hokkaido, in Japan's far north, is faring not much better. It never had a history of heavy industry. Its farms and fisheries are tended increasingly by older folk, while its tourism—trekking and hot-spring dipping in the summer, skiing in the winter—is seasonal. The educated young are leaving in droves for the warmer climate and brighter lights of Honshu.

Variations in economic prospects can be quite marked even within a single region. Take the lush southern island of Kyushu, Japan's third-largest and home to 14m people. The area on the north coast around the island's biggest city, Fukuoka, is abuzz. Toyota and Nissan make cars there, and Honda motorcycles, with much of the output going to China and elsewhere in Asia. A vibrant two-way entrepreneurial trade takes place with China and South Korea, while Fukuoka is also a tourist and shopping destination for East Asians (Seoul is closer than Tokyo).

Nagasaki on Kyushu's west coast tells a different tale. Its history was built upon its openness—it was for long the only place where Europeans could stop in Japan. Yet this pleasant port-city today feels something of a backwater, cut off by mountains and winding roads from the rest of Kyushu. During Japan's slump, the central government sent money for road and other construction, but that has now dried up. Nagasaki's garment and assembly shops have long since gone to China. Carmakers and microchip companies that have set up elsewhere in Kyushu cannot be persuaded to come. Even the memorial park commemorating the victims of Nagasaki's atomic bomb is no longer the draw it once was with school parties; a Chinese couple were the only people there on a recent Saturday visit.

Not all is gloom. Shipbuilding is still big business in Nagasaki, and order books are full until 2009, but the rising price of steel means worries about margins. Keiko Suehiro, director of the labour ministry's employment bureau in Nagasaki, says there has been some success with call centres. But, she says, Nagasaki needs to foster the kind of entrepreneurship that a long reliance on big companies like the shipbuilders has squelched. Otherwise, half of Nagasaki's graduates will continue to leave home in search of work.

On the main island of Honshu, home to most Japanese, the north-east is sharing in the recovery least equitably. In the mountainous Iwate prefecture, the flatter, southern part (helpfully close to the big city of Sendai) is doing well enough: over the years a number of manufacturing and assembly plants have been persuaded to move from other prefectures, often with beggar-my-neighbour tax breaks. But since the end of a railway and road-building binge, the rural northern half of Iwate has languished. Along Iwate's rocky coast, four commercial ports once offered hope, but these have been squeezed by bigger ports to the north and south. One of the ports, Kamaishi,

is struggling to recover from the closure of its steel industry: it was home, in 1857, to Japan's first western-style blast-furnace, and at its peak in the 1970s the city's population stood at over 90,000. Today, it is a little over 30,000.

Some 40 businesses are now at work, with government help, in the old buildings: making canoes, growing mushrooms and even, in the old magnetite mines, bottling mineral water. Still, none of that is enough. Yes, says an official, that old fall-back of the call-centre has been tried in the prefectural capital, Morioka, with some success. The trouble, he says, is that most people in the north-east speak with such a thick accent that you'd need an interpreter to tell the customer what they're saying.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Thailand

Awaiting judgment

May 4th 2006 | BANGKOK
From The Economist print edition

How to resolve a constitutional crisis?

THAILAND has now been without a parliament for over a month, after a snap election on April 2nd, boycotted by the main opposition parties, failed to return its full complement of 500 members. On April 26th, three days after reballoting in unfilled constituency seats again failed to fill all of them, the country's revered monarch intervened. In a televised speech he told the country's judges it was their duty to find a solution to the crisis.

Besides admonishing the judges, King Bhumibol had some stern words for the country's squabbling politicians—though, as is customary, none was named. It would be undemocratic, the king said, to convene parliament without its full quota of members. The ruling Thai Rak Thai party had mooted doing just this—but dropped the idea after the royal speech. The king also said it would be undemocratic for him simply to appoint a prime minister. This is something the main opposition Democrats had petitioned him to do, arguing that the constitution empowered the monarch to take such action to resolve a crisis. After the king spoke, the Democrats' leader, Abhisit Vejjajiva, announced that his party would call off its boycott if fresh elections were called.

The heads of the country's senior courts met after the royal speech and agreed to speed up their hearings of the hundreds of cases that have been brought over the election, many of which demand that it be annulled. In the meantime the Election Commission was banned from holding yet another round of balloting in the constituencies still lacking an MP.

A multitude of pretexts have been put forward to justify annulling the election, ranging from the haste with which it was called to the positioning of polling-booths, which allegedly allowed officials to peek at voters casting their ballots. On May 3rd the Constitutional Court went into “continuous session”, indicating that a ruling should be issued within days.

If it or another senior court does find grounds for scrapping the election, this could open a way around the political impasse. Thai Rak Thai's leader, Thaksin Shinawatra, the target of long-running street protests accusing him of corruption and abuse of power, stepped down as prime minister shortly after the April election. If the ruling party were led into fresh elections by a less controversial figure, and the other main parties took part this time, Thailand might then return to normal parliamentary politics.

However, such a clean ending can not yet be assured. For a start, Mr Thaksin may be plotting a comeback. On giving up the prime minister's job, he said he was making this sacrifice to preserve Thailand's “unity”. But on April 30th his acting successor, Chidchai Vanasathidya, said Mr Thaksin's promise not to seek the prime minister's job in the next parliament would no longer apply if fresh elections were called. The same day, Mr Thaksin slipped back into Bangkok following a well-timed foreign tour.

Whether he attempts a comeback or not, it is possible that he may find himself without a party to lead. The Election Commission has indicated that there might be some truth in allegations it is investigating, that a “big party” (guess which) bribed smaller ones to put up dummy candidates. The alleged aim was to ensure that Thai Rak Thai contenders in opposition strongholds did not fall foul of the rule that candidates in uncontested seats must win one-fifth of votes cast (including “no vote”). The penalties for giving or taking such bribes include the forced dissolution of the party concerned.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Pornography in Indonesia

The backlash

May 4th 2006 | JAKARTA
From The Economist print edition

No sex please, we're Indonesian

AFP

Enjoy it while you can

VIRTUALLY naked men, bare-breasted women and sensuous art have been part of Indonesia's diverse culture for centuries. But not for much longer, if a bill on pornography and *pornoaksi* (actions deemed indecent) completes its journey through parliament. The bill's proponents, a coalition of Islamic political parties, conservative clerics and hardline activists, worry with some justification that pornographic materials are readily available these days. Islamic groups say the only way to stop the rot and protect the younger generation's morality is strict legislation.

Ranged against them is a growing alliance. Ethnic groups fear that their centuries-old customs and costumes will be banned. Women's groups say the bill discriminates against them. Others worry about curtailment of freedom of expression. Artists expect any exhibition of bare flesh to be prohibited.

"The thin end of the Taliban wedge", is how some describe the legislation. The bill does not just fail to differentiate between pornography, indecency and eroticism. If passed in its current form, spouses will not be allowed to kiss in public, women will not be able to wear shorts for sport in most locations, bikinis will be banned and many traditional dances will be consigned to history.

Indonesia's anti-porn brigade is not waiting for the new bill before cracking down. *Playboy*, an American soft-porn magazine, launched its Indonesian edition last month, and though it showed far less flesh than many easily available local publications, the outcry was noisy. The police declined to stop the Islamic Defenders Front, a radical group with a thuggish element, from stoning *Playboy's* office, and they interrogated its editors even though they had broken no laws. Publication of the magazine has now been suspended.

Numerous opponents of the bill have also been intimidated. Both sides have mobilised thousands of demonstrators, and parliament has taken notice. Three teams of experts are now studying the legislation and the volumes of suggestions received from all sides. They are expected to report within weeks. Much of the bill may be scrapped or radically revised. Some room will also be given to the regions to implement it as they see fit. But the debate comes at a time when local authorities are imposing conservative Islamic regulations on dress, behaviour and education, particularly for women. In such circumstances, any bill pandering to the conservatives can only put Indonesia's reputation as a bastion of Islamic moderation at risk.

Kashmir

The indelibility of war

May 4th 2006 | DELHI
From The Economist print edition

What peace process? Kashmiris are entitled to ask

THOSE taking a bird's eye view of the murderous 16-year-old insurgency against Indian rule in Kashmir could reasonably be forgiven for believing it is winding down. After all, surely India and Pakistan, the two powers disputing sovereignty over the territory, are now making peace? Unfortunately, that seems to matter little to the militants waging war there. April 30th saw the bloodiest single day of the conflict for four years. In two co-ordinated massacres, 35 Hindus, including a three-year-old girl, were rounded up from their mountain villages in the districts of Doda and Udhampur and killed.

EPA

Fine words and round tables are not stopping the killing

The conflict took more than 1,700 lives in 2005. More than 90% of the victims were members of the state's Muslim majority. Most of Kashmir's Hindus, known as “pandits”, fled the region after the start of the insurgency.

Indian analysts suspected the atrocity was a reaction by Pakistan-based militant groups to two setbacks for their cause. Four by-elections for the legislature of the Indian state of Jammu & Kashmir, which encompasses the Indian part of the former princely state, were held on April 24th. Militants and moderate separatists as usual called for a boycott, refusing to recognise the legitimacy of Indian rule. But on this occasion there was a high turnout anyway, of close to 60%, perhaps provoking the men of violence.

Second, on May 3rd moderate separatist leaders, grouped in the All-Party Hurriyat Conference, were scheduled to meet India's prime minister, Manmohan Singh, in Delhi. This was part of a faltering dialogue begun under the previous Indian government in 2004, and resumed by Mr Singh last September. The militants do not want talks to succeed.

Not that there has seemed much chance of that. After every encounter with the centre, the Hurriyat has complained that promised concessions—such as the release of prisoners, the withdrawal of some Indian troops and an end to human-rights abuses—have never materialised. They have suspected India of wanting to undermine their credibility.

At any rate, Kashmiris have seen few benefits from the confidence-building process between India and Pakistan. Even the enthusiasm that greeted the opening in April 2005 of a bus route across the “line of control” dividing Kashmir has petered out. The procedures for boarding the bus are so complicated that only a handful now use the fortnightly service. Undaunted, India and Pakistan this week agreed on a second bus-route, as well as one for lorries.

In Delhi, the Hurriyat delegation, led by Umar Farooq, a senior Sunni Muslim cleric, agreed to come up with a “mechanism” for talks with the centre. But it remained distinctly non-committal about taking part in a round-table conference with politicians of all stripes called by Mr Singh for later this month in Srinagar, the capital of Indian-ruled Kashmir. Mr Singh is keen to show both Kashmiris and Pakistan that he is sincere in seeking a settlement of the dispute. So deep are the differences that, even with the Hurriyat in attendance, a breakthrough is unlikely. But without them, Mr Singh's round table seems doomed to be yet another fruitless effort to square the circle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

India

The death of a party's hopes

May 4th 2006 | DELHI
From The Economist print edition

"Generation Next" loses a figurehead

Reuters

The lost leader

IT WAS a grisly end to what was still a political career full of promise. On May 3rd, Pramod Mahajan, a senior leader of the Bharatiya Janata Party (BJP), India's main opposition party, died in hospital, 11 days after being shot at his Mumbai flat. His younger brother confessed to the shooting, saying Mr Mahajan had humiliated him. For days before his death, senior BJP colleagues haunted the hospital, praying for his recovery. It seemed that only as they were about to lose him did they realise his importance to their party's future.

Two years ago, Mr Mahajan was pilloried by many in the BJP for a disastrous electoral performance, which snatched defeat from the jaws of a victory the whole world took for granted. Mr Mahajan was closely associated with the "India Shining" campaign, an attempt to boost India's image, but also a thinly veiled vote-grabbing stunt. It failed. For most of India's rural majority, India was not shining at all.

Mr Mahajan, more than anyone else, symbolised the BJP's modernising wing. He was keen on laptop presentations, text-message updates and exercising on a treadmill rather than at the early-morning physical jerks favoured by the BJP's mother-organisation, the Rashtriya Swayamsevak Sangh. Although a product of that movement, he was not hidebound by its ideology of *Hindutva*, or "Hinduness". Rich and flamboyant, he was an economic liberal and reformer, with little time for the party's protectionist wing. He was, above all, young, or at least, at 56 when he died, far younger than the party's founding leaders, Atal Behari Vajpayee and L.K. Advani.

The leadership of the party has already passed, nominally, to a member of Mr Mahajan's "Generation Next". But the incumbent, Rajnath Singh, is a colourless figure. Mr Advani, who is in his late 70s, still appears to see himself as a prime-ministerial candidate in the next elections, due by 2009. There are other younger leaders, such as Arun Jaitley, a suave lawyer, but he has little popular support. Uma Bharti, a populist, lower-caste politician, has a mass base but has quit the party in a huff, largely directed at Mr Mahajan. Narendra Modi, chief minister of the western state of Gujarat, is a hero to BJP hardliners. But he is loathed by liberals. Communal violence this week in the Gujarati city of Vadodara recalled his government's connivance in an anti-Muslim pogrom in 2002.

Traditionalists in the BJP blame the pragmatic coalition politics of men like Mr Mahajan for alienating the party's core Hindu supporters: this, they reckon, was the true reason for the loss of the last election. But the BJP's genuine grief at his passing was in part recognition that only a leader such as Mr Mahajan, who could appeal outside the *Hindutva* fold, has a chance of leading it back to power.

Pakistan's earthquake

Tremors to come

May 4th 2006 | MUZAFFARABAD
From The Economist print edition

The army did well, but it may have stayed too long

THE state-of-the-art mobile hospital in Mansehra, northern Pakistan, shimmers in the afternoon heat. “Saudi Arabia donated this facility three days after the earthquake. Since then it has treated 120,000 patients,” says Abdul Aziz Arukban, a Saudi “special ambassador”. “Today we are giving it to the Pakistani people. It's time for them to carry on the job.”

A sense of achievement is palpable among the assembled Saudi government officials, Pakistani generals and Western aid workers. The earthquake that struck Kashmir and other parts of northern Pakistan last October killed 73,000 people, displaced 3m and left the local government in pieces. It was feared that the Himalayan winter would bring another wave of death. That it did not can be explained by two things: the Herculean labours of Pakistan's army, and outsiders' generosity. At the height of the emergency, more than 100 international and national aid agencies were active in the quake areas. At a conference in November, donors pledged $6 billion, more than was asked for.

General Pervez Musharraf can claim much of the credit for both achievements. It was he who enlisted the foreign aid, and he who decided that the relief effort would be a military-run affair, directed from Islamabad, Pakistan's capital. Demands from opposition parties, and from some donors, for more civilian and local oversight were brusquely turned down. But even if this centralised, military approach was correct in the early stages of the rescue, it may no longer be appropriate. As relief gives way to rebuilding, worries are growing that it may be creating problems of its own.

Muzaffarabad, the capital of Pakistan-administered Kashmir, is a case in point. The city was brutally mauled by the disaster. Efforts here have been impressive. Much of the debris has gone. And the refugee camps are emptying, as families trek home to remote mountain villages, courtesy of a land “bridge” provided by the army and international agencies. All the same, some 60,000 people are stuck in grim shanties. This is not because of “aid dependency”, as one derisory general sniffs (though some Kashmiris admit services in the camps are better than in the villages). It is because most have yet to receive enough or even any money to rebuild their lives. As many as 85% of these will be spending another winter under canvas, say local relief workers.

The reason is that a compensation scheme designed by the army, and revised constantly by donors, has turned out to be Byzantine in its complexity. Seven months since the earthquake, some families who have lost their homes have received cash, though not enough to rebuild their houses. Some, though, have received nothing. And some, disgracefully, have received government cheques that bounced on deposit. “The people are becoming restless,” says Farooq Haider Khan, assistant to the prime minister of Pakistan-ruled Kashmir. The problem of compensation has been compounded by the collapse of Muzaffarabad's local government, and what some see as the central government's desire to keep it collapsed. “The local administration was damaged by the earthquake. But by now it could have been restored. Instead it's been

replaced by the army," complains Mr Khan.

Last month saw a general strike in Muzaffarabad in protest at the lack or inadequacy of compensation. More demonstrations are planned in the weeks ahead. So far they have been peaceful, with Pakistan's more radical Islamists keeping out of the fray. But elections are due in Muzaffarabad in June. That, predicts Mr Khan, is when the resentment may boil over. "Things could get nasty," he says.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Darfur

From one deadline to the next

May 4th 2006 | ABUJA AND NAIROBI
From The Economist print edition

Reuters

Any peace deal signed in Nigeria will be hard to make stick on the ground

IN THE car park of a drab hotel in Abuja, Nigeria's capital, a negotiator captured the spirit of the Darfur peace talks. “This place is killing us. We need a break.” After four months cooped up in the hotel, negotiators sigh for the early days when the talking took place in a five-star hotel in the centre of town. It was predictable, all the same, that these talks should grind on after missing an April 30th deadline, set by the African Union, which was hosting this seventh round of negotiations since 2004. Two more deadlines had come and gone by the time *The Economist* went to press on May 4th, with no conclusion in sight.

Less predictable was that so many heavyweights should have jetted into Abuja to twist arms. Among the late arrivals this week were various African heads of state as well as America's deputy secretary of state, Robert Zoellick, and Britain's international development minister, Hilary Benn. The African leaders were keen to bolster the credibility of the African Union. Mr Zoellick said he was there to “sharpen the focus”—but his visit was also designed to convey a sense of urgency on behalf of the superpower.

Against the odds, Darfur has become an issue in America. A vivid grassroots campaign, “Save Darfur”, latched onto by Democratic presidential hopefuls and a few celebrities, has helped to spur the administration into action. George Bush is now said to be “passionate” about getting both NATO and United Nations forces on the ground in Darfur, an idea that the Islamist Sudanese government detests. The reality, however, is more nuanced. Sudan's military intelligence has been supportive of both the CIA (spilling a few beans on al-Qaeda) and the *janjaweed* militias who have done most of the killing in Darfur. So the question for the Bush administration is not just how to

stop the slaughter, which it has called a “genocide”, but how to stop it at the same time as keeping Sudan more or less on side in the war on terrorism.

Everyone in Abuja acknowledged the necessity of striking some kind of agreement at the talks. Special pressure was applied to Darfur's two main rebel groups, the Sudanese Liberation Army and the Justice and Equality Movement. They refused to sign a draft agreement that the Sudanese government had agreed upon, despite the fact that this included such concessions as a ministerial post for the region in the central government in Khartoum and a promise by the government to disarm the *janjaweed*. Sudan's government even promised to integrate several thousand rebel fighters into the official armed forces.

But if Darfur's rebels succumb to pressure and are persuaded to sign an amended draft, will it be implemented? It is little wonder that agreements made on behalf of Darfur have proved all too flimsy in the past. Darfur's tribal elders had no say in the Abuja negotiations, and it is not clear to what extent the rebel negotiators, who have been notoriously divided among themselves, speak for the men with guns back home. Nor is there much reason to believe in the disarming of the *janjaweed* militias. Even with the best of intentions, retrieving guns from fierce nomadic people is a lot harder than giving them the guns in the first place.

Nonetheless, any deal at all would be a prize worth having. This is because the Sudanese government has pledged to consider letting a UN force into Darfur if a peace accord is signed. So even a deal that does not last might give outsiders the leverage they need in order to insert an effective UN peacekeeping force in place of the existing African Union mission. This lacks the guns, the men and the mandate to enforce the peace. With America's new urgency, it may be possible for NATO troops to play a role. But exactly who will provide and pay for the 15,000 or so troops that are needed, and when, remains murky.

A serious peacekeeping force would anyway be no panacea. The scale of Darfur's misery beggars belief. This remains the largest and most expensive humanitarian relief operation in the world. As many as 300,000 Darfurians may have died in the conflict so far, and some 2m have been displaced, mainly (but certainly not wholly) at the hands of government forces and the *janjaweed*. Aid organisations have done an impressive job of keeping the displaced alive; hunger was halved in 2005. But this is only a holding pattern. The aid operation in Darfur, say those working there, is at full stretch and overly dependent on the Sudanese authorities.

Darfur's conflict began as an environmental catastrophe. Competition for natural resources led to killing. A $200m annual grant to Darfur from the Sudanese government, called for in the Abuja draft, will not go very far to offset the scarcity of water, food, fuel and other resources. But even advocates for the region admit there is not much chance of more money being made available. Commitments to rebuild south Sudan, where the government signed a separate peace deal with rebel groups a little over a year ago, ending a long-running civil war, are already falling short, threatening a return to violence.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa

Barking up the wrong sun-deck

May 4th 2006 | JOHANNESBURG
From The Economist print edition

Foreigners are not responsible for rising property prices

Get article background

THESE are nervous days for foreigners thinking of buying a dream mansion on South Africa's Cape seashore, now a favoured destination for the cash-happy permatan set. For the present they are able to purchase property the same way locals do, with no restrictions. This is changing. South Africa's government is thinking of making it just a bit more difficult for them.

In a country trying to heal the wounds of hundreds of years of land dispossession and forced relocation, many people have come to blame outsiders with pockets full of British pounds or euros for pushing up prices, driving locals out of the housing market, or turning farmland into private game parks. In February, President Thabo Mbeki announced that the conditions under which foreigners buy land would be regulated in line with international practices. Later that month, a panel appointed by the government in 2004 recommended that until then there should be an immediate moratorium on all foreign transactions. Although the idea was promptly dismissed, this has created jitters overseas and amongst locals worried about the effects of such action on foreign investment.

Property prices have indeed shot up over the past five years, by an average of 20% a year. Foreigners have had little to do with it, however, and slapping on restrictions is unlikely to bring houses or land to those who need them most. Foreign individuals—including those who live in South Africa—own 1-3% of residential properties, and about 2% of farms. Foreign interest probably has pushed prices up slightly in specific areas, such as the posh bits of the Western Cape coast. But, overall, the small numbers are unlikely to have had any significant impact on general prices. The property bonanza has had more to do with a buoyant economy, a growing middle class and declining interest rates. Low-cost housing and dwellings in townships have not been spared from the rising prices either.

That has aggravated a more serious problem, the lack of affordable housing at the bottom of the market. Banks have promised 42 billion rand ($7 billion) worth of mortgages for people earning less than 7,500 rand ($1,244) a month by 2008. But there are too few new houses. A recent study from the Banking Association of South Africa argues that developers have lost interest in affordable housing, in large part because municipalities are too slow to earmark and service land for development. In any case, property prices have lost some steam after their run over the past few years. An increase of 10-12% is expected this year, compared to over 22% in 2005 and over 32% the year before.

So far, preliminary suggestions from the government-appointed panel on foreign ownership include ministerial approval for certain transactions such as large agricultural holdings, ecologically fragile zones and areas due for restitution or redistribution under the land-reform programme. This would not be very different from what exists in places like Australia, Switzerland or Mexico.

The panel's final recommendations are expected later this month or in June. If reason prevails, more punitive measures are unlikely.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iraq's trade unions

Tender shoots in weed-bound soil

May 4th 2006 | IRBIL
From The Economist print edition

Attacked by insurgents, hobbled by factions, Iraq's unions fight for air

AN ELECTRICIAN in Basra plunges to his death while repairing a pylon, felled by a sniper's bullet. A group of construction workers are stopped at a bogus checkpoint near Baquba, north-east of Baghdad, and then taken off their bus and shot. A secondary-school teacher in Mosul is gunned down as she leaves for work in defiance of insurgents' demands that she stay at home. These apparently unrelated attacks, in different parts of Iraq, occurred on the same morning last month. They would have gone largely unnoticed but for the fact that the ten people killed that day were all members of the country's increasingly vocal trade-union movement.

According to the Iraqi Workers' Federation (IWF), more than 2,000 of its members have been killed as a direct result of the economic scorched-earth policy waged by the insurgency. Assaults on oil pipelines and electricity substations have left a trail of human casualties. Teachers, health-care workers and civil servants are also considered “legitimate” targets.

It is not just the rank-and-file who are at risk: union leaders have been picked out for assassination. In the most notorious case, in January 2005, Hadi Saleh, the founding father of the post-Saddam union movement and president of the Iraqi Federation of Workers' Trade Unions, was tortured and then shot by gunmen, thought to be survivors of the former regime.

Iraqi unions had been battered for some 30 years by the Baathists, who had eradicated any organisation that resisted party rule. After Saddam Hussein's removal in April 2003, a new, independent movement came swiftly to life. The IWF, the teachers' union and other associations now lay claim to up to 1m members. They have notched up a series of successes, challenging the hiring and wage policies of foreign-owned contractors in the oil industry (the privatisation of which they strongly oppose), as well as winning extra security protection for reconstruction workers in Baghdad and central Iraq.

But at a recent meeting in Irbil with British trade unionists, Iraq's union leaders made urgent pleas for solidarity and help from their comrades in the international labour movement. “We will always fight to protect our members' rights,” said Hadi Ali, the IWF's vice-president. “It doesn't mean we are against change...We are also all fighting to transform Iraq into a sustainable democracy, and unions may well be the most powerful weapon in that battle.”

It is not just the chronic insecurity that is making life tough for Iraqi workers and their representatives. Unionists accuse the new Iraqi authorities of exploiting Saddam-era laws to suppress their new-found independence. Making matters worse, there are reports that Islamist parties linked to the Shia-led government are trying to create client, sectarian unions.

Particular concern is caused by Decree 8750, passed last August by the interim administration of Ibrahim al-Jaafari. This provides for state control of the finances of all of Iraq's trade unions, and

is seen as threatening their independence. A free trade-union movement, argue members, would do much to help the country avoid the ethnic and sectarian disputes at grassroots level that threaten to escalate into civil war. Historically, both the members and leaders of Iraq's unions have cut across ethnic and religious lines.

Hashmiya Mohsen, the feisty head of the Basra branch of the electricity workers' union, lists other ways in which independent, democratic unions can contribute to reconstruction: the inclusion of marginalised groups (women, for instance); the acceptance of elections as a part of life; and lessening the suspicion between local workers and foreign employers.

But first, says Ms Mohsen, one of very few female union bosses, the new prime minister, Jawad al-Maliki, should repeal Decree 8750. Determined to keep the idea of independence alive, she argues that getting rid of the decree “would be the best sign yet that Iraq's unions are seen as partners and not obstacles to our future.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Hamas and Fatah

Shut your eyes and think of Palestine

May 4th 2006 | JERUSALEM
From The Economist print edition

A difficult marriage but one of remarkable convenience

ARE Palestine's rival militias heading for civil war? Look, for instance, at the incident in Gaza last week when Fatah militiamen shot their way into the health ministry and would have captured its minister had Hamas's militiamen not rushed to his aid. Under Western and Israeli pressure, and amid mounting lawlessness, what is left of the Palestinian Authority (PA) in the West Bank and Gaza seems bent on tearing itself to bits. Or so it appears.

But take note of a contrary development: preparations for a national dialogue, leading to a coalition government. The offer of talks was made last week in a letter that Abdel Aziz Dweik, Hamas's American-educated parliamentary speaker, wrote to Mahmoud Abbas. The president, a Fatah man, accepted "in principle".

AFP

Hamas ministers under Fatah's eyes

Most Palestinian politicians admit that their chances of surviving a tightening international and Israeli siege would be greater if they managed to close ranks. A coalition, many have come to believe, offers mutual benefit. It would give Fatah the chance to regain the hold over the authority that it lost in the elections, and stem Hamas's drive to displace it. A coalition might also reverse the domestic scorn that Fatah earned by smooching with the unholy alliance of outsiders bent on bringing the government down.

For its part, Hamas stands to win some of Fatah's international legitimacy and—of more immediate concern—the money without which it cannot govern. "National unity will enable the Arabs to stand firmly with the Palestinians, and weaken the American iron fist," said Atif Adwan, a Hamas minister. Moreover, a coalition government would give cabinet ministers the cover and distance they need from the stalwarts who continue to resist the demand by America, Europe, Russia and the United Nations that Hamas recognises Israel's right to exist, honours previous PA agreements and forswears violence.

Ministers struggling to balance both books and dogma have already gone some way to conceding that change is inevitable. "A long-term ceasefire as understood by Hamas and a two-state settlement are the same," says Omar Abdel Razaq, the finance minister. "It's just a question of vocabulary." With criticism growing of his handling of the salary crisis, he claims that he would be only too happy to give up his job to Fatah, and return to teaching.

The attempts to bring Fatah on board have so far foundered on the agenda. Fatah has made four conditions: a joint political programme based on recognition of its “peace project”, a resolution of the conflict between Mr Abbas and Ismail Haniyeh, the Hamas prime minister, for control of the PA's institutions, the acceptance of factions other than Fatah in the coalition, and Hamas's inclusion within, and submission to, the authority of the Palestine Liberation Organisation. Hamas says it wants to discuss all four, but rejects them as preconditions. A tentative date for talks, pencilled in for the start of May, was delayed until the middle of the month and seems now to have been pushed further ahead.

Much can go, and is going, wrong. Muhammad Dahlan, an important Fatah figure in Gaza, declined Mr Abbas's request to join the preparatory team. Mr Abbas himself has not ruled out the prospect of dismissing the government. And some Hamas ministers have yet to abandon the hope that they might run the show alone.

But time is not on Hamas's side. Recent hopes that the Arab League might pay Gulf aid direct to civil servants' bank accounts have been dashed—after the Americans blocked it, says the presidency. And even were it to trickle in, this aid is insufficient to pay March's salaries, let alone April's.

With the economy all but frozen, Palestinians are beginning to tire openly of Hamas's readiness to put pride before prudence. In stark contrast to Hamas's success in the parliamentary elections, Fatah swept the board in last week's student elections at the Open University, the largest Palestinian academic institution. It also did well at elections in the Palestinians' biggest refugee camp, at Baqa in Jordan, hitherto controlled by an Islamist faction.

Some argue that Hamas's waning electoral fortunes are proof that sanctions are working. By their own estimates, Hamas ministers reckon that without sanctions-busting they have but a few months to survive. But their downfall is not a solution. Robbed of power, Hamas has given warning that it will abandon its political experiment—and deny Fatah the mandate to pick up the pieces. The entire PA system—president, Fatah and all—could come tumbling down, and with it all progress towards a peaceful two-state solution.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Saudi Arabian reform

Drip, drip, dripping

May 4th 2006 | RIYADH
From The Economist print edition

Life in Saudi Arabia may look the same as it always was, but it's not

EXCEPT for the welcome absence of muzak, the Panda Hypermarket is much like any other giant retail outlet, its brightly lit shelves neatly stacked with bar-coded goods from the corners of the world. But a sign blocks one aisle, where a bearded controller guards shelves of CDs, DVDs and cassettes. “Dear customer,” it reads in Arabic and English, “Females are not allowed to enter this area.”

The persistence of such ideas—the need to protect women from the evils of Disney films and pop music—suggests that little has changed in Saudi society. But change, or what some would call reform or progress, is very much afoot in the kingdom, and not only because the satellite dishes atop every Saudi home capture all the world's wickedness anyway.

AFP

Flaunting her abaya, with flair

The signs are mostly subtle, but sometimes not. Since assuming the throne last August, King Abdullah has lent his own considerable moral weight to the momentum for progress. “We cannot stand still while the world around us changes,” the king said bluntly in a recent speech.

His first act in office was to release three imprisoned dissidents, who had been punished for demanding a move towards constitutional monarchy. Touring Asia this winter, he broke with tradition by including a group of prominent Saudi women in his delegation. In a signal of royal displeasure, Mohsen Awaji, an outspoken Islamist conservative, was briefly imprisoned for suggesting that a liberal clique round the king was hijacking policy.

Yet the king has largely shied from a direct assault on social strictures. Extreme traditionalists remain in control of such key institutions as state schools, universities and the judiciary. Roving enforcers still frighten citizens who might dare to break rules of public decorum. Those rules are often petty and onerous: women are, famously, not allowed to drive, or indeed to mingle with any men outside the home, except for relatives.

In March, a move to do no more than debate the driving issue in the Shura Council, an all-appointed proto-parliament, was quashed by order of the chamber's speaker. In April, provincial prosecutors jailed a young journalist instead of investigating death threats against him; this was apparently due to anonymous charges that his writings strayed from religious orthodoxy. At the annual Riyadh book fair in February, bearded hecklers disrupted seminars, harassed female visitors, and demanded the banning of works they said promoted secularism.

Yet conservatives also feel themselves to be under pressure, and with good reason. From the airwaves to the internet to fiction-writing, to public places such as markets and restaurants, ordinary Saudis are pushing the bounds of what is permissible. Female presenters, once rare, are now ubiquitous on Saudi television. The cover-all *abaya* that women must wear in public, once strictly black and baggy, is increasingly shapely, and often sports brightly coloured sleeves.

Advertisers no longer fear to picture the human form, though in a gesture to religious scruples, the faces smiling out of billboards are still deliberately blurred, or partially obscured by sunglasses. Public libraries, as well as the Riyadh book fair, have for the first time been opened to female visitors. Several recent incidents, reported through internet chat sites, tell of citizens beating up overly aggressive agents of the feared Committee for the Promotion of Virtue and Prevention of Vice, the 9,000-strong vigilante force charged with upholding public propriety.

Change within institutions is slower, but portends more significant results. Saudi education, with its heavy emphasis on Wahhabist values and rote memorisation, has often been blamed for narrowing minds. The education ministry has now purged the state curriculum of much offensive material, and is set to embark on a massive, American-modelled retraining scheme for schoolteachers. Addressing the university system's over-production of religious scholars, and under-production of useful skills, it has licensed nine private colleges within the past decade.

One of the more ambitious, being built by the King Faisal Foundation in Riyadh, plans to offer 8,000 students Ivy League-quality degrees in applied sciences and management, with courses taught by foreign academics in English. “What we want is to open up the country, to enlighten people,” says Prince Bandar bin Saud, the foundation's director. “If we can change people's minds, all else will follow.” The university will accept men only at first, but its two-tiered lecture halls are designed to give women their own access.

The Saudi government, newly flush with oil money, has also hugely expanded its programme of overseas scholarships, particularly to the United States, but also to such countries as Malaysia and Japan. The number of Saudi students in American colleges had been dwindling, from a high of 10,000 a year in the early 1980s to barely 4,000 last year. After a plea to King Abdullah from George Bush, the number has since surged back to 8,000, with many more delayed by the over-burdened American consular bureaucracy.

Liberal-minded Saudis continue to feel isolated, and remain fearful of a conservative backlash. “The jury is still out on Abdullah's reign,” says one Riyadh activist. “But you can feel the weight of public opinion shifting. Time moves slowly here, but it does move.”

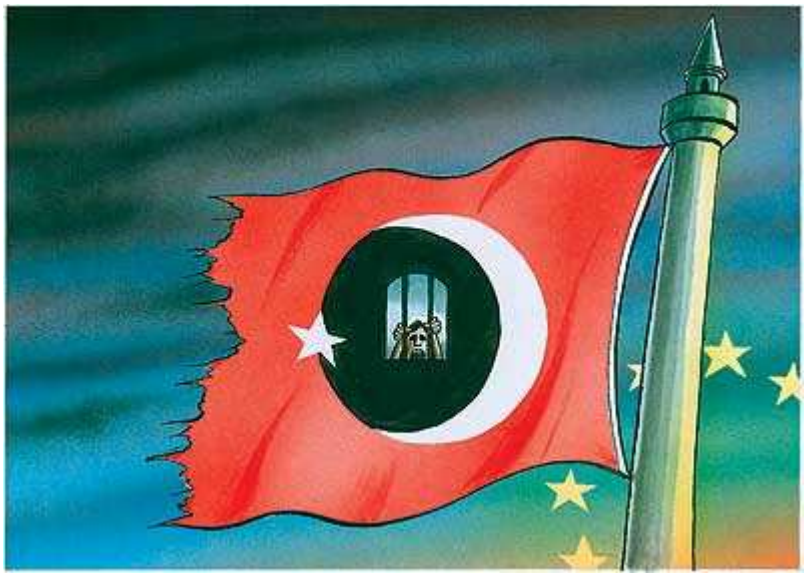
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey

Flying in the wrong direction

May 4th 2006 | ANKARA AND DIYARBAKIR
From The Economist print edition

Turkey's government may be turning away from Europe



CONSIDER two examples from the many worrying recent events in a country that aspires to membership of the European Union. In Diyarbakir, some 80 Kurdish children face as many as 24 years in prison for taking part in violent protests after the funeral of four PKK separatist rebels on March 28th. Their lawyers say most were beaten and tortured. The second is the arrest in Fatsa, on the Black Sea coast, of a local leader of the ruling Justice and Development (AK) party on charges of insulting Ataturk, after an officer saw him chew gum as he laid a wreath before a statue of modern Turkey's founding father.

Far from trying to end such incidents, the government wants to limit free speech even further in a new anti-terror bill. This would reintroduce jail sentences for journalists accused of “propagating terrorism”, deny suspects access to a lawyer for the first 24 hours of detention, and license security forces to shoot anybody who doesn't surrender on first command. Critics say the bill could spell a return to abuses at the height of the PKK insurgency in the 1990s, when hundreds of writers were imprisoned, thousands of detainees were tortured and many were slain in extra-judicial killings by security forces.

These measures call into question as never before Turkey's commitment to the reforms that helped it to start EU membership talks last October. Some observers wonder if Recep Tayyip Erdogan, the Turkish prime minister, is so disgusted by the efforts of such EU countries as France and Austria to erect new hurdles to Turkey's membership that he is giving up on Europe. A

European Court of Human Rights ruling upholding bans on the Islamic headscarf in Turkish universities may have upset him. Disillusion with Europe may also explain his government's flirtation with Iran, Syria and Hamas.

Yet Abdullah Gul, the foreign minister and arch-proponent of EU membership, firmly denies that the government is moving away from the EU. To the contrary, new measures are being introduced to bring greater transparency to defence spending. Mr Gul insists that the anti-terror law is needed to deal with the mounting threat posed by PKK rebels since they ended a unilateral five-year truce in June 2004.

Clashes between security forces and the PKK in the mainly Kurdish south-east have been increasing. Taking aim at Turkey's tourism industry, the rebels have vowed to attack resorts. Nationalist passions spiral with each funeral of a Turkish soldier killed in the fighting. Yet Mr Erdogan's critics insist that Turkey's laws are harsh enough. They see the anti-terror law as part of a bigger battle between the government and its foes in the security establishment (the “Deep State”), whose power is threatened by EU-inspired reforms.

In this battle, the generals seem to be gaining the upper hand. Take the case of Ferhat Sarikaya, a prosecutor in the eastern city of Van. The generals called for him to be investigated for abusing his office after he named General Yasar Buyukanit, a leading army commander, in his indictment of three military-intelligence operatives accused of blowing up a Kurdish bookshop in the town of Semdinli last November. Mr Sarikaya was later fired and the investigation squashed. Yet Mr Erdogan, who had earlier vowed to get to the bottom of the Semdinli affair “no matter where it leads”, has not uttered a word of reproach. The alleged perpetrators, whose trial began this week, may now get off the hook—and the scandal may be buried.

The prime minister's change of heart may merely reflect a desire to win nationalist support ahead of parliamentary elections next year. An even bigger prize would be to secure the generals' blessing for his hopes of becoming president when the determinedly secular incumbent, Ahmet Necdet Sezer, retires in May next year. Mr Erdogan now commands a big majority in parliament, which elects the president. With the veto-wielding Mr Sezer out of the way and another AK party leader installed as prime minister, a President Erdogan could at last satisfy his pious constituents' demands for an easing of restrictions on the headscarf and on religious education.

That is why the generals do not want Mr Erdogan, or anyone from the AK party, to capture the presidency, the last lever of civilian secular power. With help from Mr Sezer and Deniz Baykal, leader of the opposition Republican People's Party, the army is again conjuring up the twin spectres of radical Islam and Kurdish separatism in a bid to force early elections. Their hope is that Mr Erdogan may lose his majority—and with it the presidency.

It is a dangerous game. After years of robust growth since the 2001 financial meltdown, the economy is looking vulnerable. A widening current-account gap is less likely to be filled by tourism revenues if PKK terrorism spreads. An early election could increase instability and frighten foreign investors. Would the army, which owes its strength to an enduring popularity among most Turks, be willing to take the blame for a fresh economic crisis?

The biggest threat of fundamentalism may be brewing in the south-east, where many unemployed Kurds, disillusioned by the government, the EU and the PKK alike, are turning to Islam. Turkish Hizbullah, a radical Islamic outfit that was tolerated by the authorities in the 1990s because its main targets were nationalist Kurds, but was later crushed, is re-organising throughout the south-east under new labels. Its influence is palpable in the shanty towns round Diyarbakir, where unemployed youths say that “Islam should rule the world.”

Past experience suggests that repressive laws and a military crackdown cannot stamp out

terrorism. If anything, they produce a steady stream of recruits. As Mr Erdogan said in his groundbreaking speech in Diyarbakir last year, “more democracy” is the real answer. If combined with employment-generating investment, EU-inspired reforms could still attract millions of votes for Mr Erdogan. And they remain the best guarantee against the generals' worst nightmare: the dismemberment of Ataturk's secular republic.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Balkans

Please let us join your club

May 4th 2006
From The Economist print edition

Renewed questions over the Balkans' future in the European Union

"SERBIA'S European future is under threat," said Vuk Draskovic, the country's foreign minister, on April 28th. He was referring to the European Union deadline for the arrest of Ratko Mladic—the Bosnian Serb general who tops the wanted list at the war-crimes tribunal in The Hague—which expired two days later with Mr Mladic still at large. The deadline was originally the end of March, but was extended after promises by Vojislav Kostunica, the Serbian prime minister, to both the tribunal and to Olli Rehn, the EU enlargement commissioner. On May 3rd, Mr Rehn called off talks with Serbia. The gloom deepened when Miroljub Labus, Serbia's top negotiator with the EU, resigned, deploring his country's breach of promise. That may cripple the government and even lead to a new election.

The called-off talks are about a Stabilisation and Association Agreement, the first step towards EU entry. If Mr Mladic happens to be caught, even hours before May 11th, when the next round of talks had been scheduled, it is almost certain that they will go ahead after all. Yet few will dispute Mr Draskovic's assessment. And it is not just in Belgrade and Brussels that officials are fretting about Serbia. Alarms are sounding in Washington too.

In all the main western capitals, diplomats were until recently comparing notes over how to thank Serbia if it co-operates, both over Mr Mladic and over the future of Kosovo, which is supposed to be decided this year. Among the rewards mooted for handing over the general would be Serbia's admission to the Partnership for Peace, NATO's military-aid programme. As a sweetener for Serbian acquiescence in Kosovo's independence, plans had been drawn up to guarantee the status and property of the province's monasteries. Now the diplomatic talk is not about thanking Serbia, but about limiting the damage from a potential fiasco.

Why won't Mr Kostunica deliver Mr Mladic? The prime minister says he cannot find him. Some think he is reluctant to go after a man whom many Serbs see as a hero. And the stubborn, reputedly ill general will not surrender. A grim poll also shows that Serbia's best-liked political group is now the extreme pro-Mladic Radical party, with a 38% rating.

Also concentrating minds is a May 21st referendum in which Montenegrins will decide whether their tiny state should be independent, or stay linked to Serbia. If Serbia's European hopes were boosted by a Mladic handover, it would be a fillip for the pro-Serbian camp in Montenegro. The dashing of those hopes will give the anti-Serbian side new arguments. Indeed, some wonder if Mr Kostunica may be keeping Mr Mladic back to arrest him just in time to affect the poll.

But whatever the Montenegrins decide, western diplomats are reconsidering ideas that have underpinned their thinking about the Balkans—including the premise that, if countries behave well, they can join the EU. This year, negative signals have been sent by French and German politicians, warning Balkan states not to count on their ultimate admission to the EU, even though they were promised as much in 2003. The effects of western Europe's flagging interest in the region are being felt. On April 26th, Bosnia's parliament failed to ratify constitutional changes that would be needed in order to join the EU.

Next spring, the office of High Representative, a kind of international governor for Bosnia, is due to be abolished, to be replaced by a gentler kind of persuasion, known in Brussels as “conditionality”. But unless the EU can deliver on its promises, that persuasion will not be very effective. In Washington, meanwhile, there are worries about the effects on the whole region of Kosovo's looming independence. As one American official says, setting Kosovo free while letting the Radicals take Serbia back into embittered isolation would hardly add up to a great success.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

France's Watergate

Muddy waters

May 4th 2006 | PARIS
From The Economist print edition

The fall-out from the Clearstream scandal hurts the mainstream right

"WATERGATE à la française", one opposition leader calls the Clearstream affair. Named after a Luxembourg-based clearing-house, it has all the ingredients of a political thriller: a master spy, anonymous denunciations, defence kickbacks, a smear campaign and fratricidal rivalry. This imbroglio, which touches the heights of the French state, hints at the flavour of politics over the next 12 months, in the run-up to the presidential election.

The story orginates in a judicial investigation, launched in 2001, into kickbacks, linked to the 1991 sale of six French frigates to Taiwan, that were allegedly channelled through Clearstream accounts. In 2004 the judges received anonymously a list of foreign bank accounts linked—falsely, it transpired—to various politicians. One name on the list was Nicolas Sarkozy, the centre-right interior minister and presidential hopeful. The judge swiftly concluded that the list was bogus, and a new investigation was begun into the false accusations.

It is the search for the person who concocted the list that has turned into an affair of state. According to testimony leaked to *Le Monde*, a left-leaning newspaper, General Philippe Rondot, a retired top spy, told the inquiry that Dominique de Villepin, then foreign minister and now prime minister, had asked him to investigate Mr Sarkozy—on orders from President Jacques Chirac. Mr de Villepin and Mr Chirac each took the unusual step of issuing a communiqué to deny this claim. Mr de Villepin, already reeling from defeat on the streets over his labour reforms, told a raucous parliament this week that he was "profoundly shocked and hurt" by the "campaign of slander and lies" against him. He flatly ruled out his own resignation.

The details of the scandal remain frustratingly opaque. Mr de Villepin says he never asked General Rondot to dig up dirt on Mr Sarkozy, nor even mentioned his name. General Rondot, described by one source as "a man of honour and integrity", told *Le Figaro*, a centre-right newspaper, that *Le Monde* had distorted his testimony. Mr de Villepin had never, he declared, asked him to investigate any political figure. Yet his notes of a meeting with Mr de Villepin, which were seized in judicial raids, read: "Political stake: Nicolas Sarkozy. Fixation with N.Sarkozy (re: conflict Chirac/Sarkozy)". And new evidence leaked to *Le Monde* this week suggests that Mr Sarkozy was indeed discussed.

Other questions remain. Who forged the list and who were they trying to destabilise? What was the role of executives at EADS, the defence and aerospace firm, whose offices were raided by the judges? They also searched offices at the defence ministry and intelligence headquarters. Mr de Villepin said this week that he would be ready to testify if asked. But rumours and counter-rumours keep flying.

On one level, this is a struggle between two presidential aspirants on the right: Mr Sarkozy and Mr de Villepin. Ever since he returned to the interior ministry last year, Mr Sarkozy has wanted to find

out who was behind the smear campaign. He also wanted to know why Mr de Villepin, as interior minister, did not inform him sooner of the allegations, or of the investigation that cleared his name. If Mr de Villepin gained from Mr Sarkozy's discomfort at the time, the reverse is now true: the prime minister's popularity has fallen even below that of the president (see chart).

On another level, the affair raises institutional questions. If it were true that a leading politician had asked a top spy to snoop on his rival, that would be serious enough. That politicians consider the intelligence services as instruments for political ends is graver still. “In a normal country,” commented François Bayrou, the centrist UDF leader, “the state is protected from clan warfare. Neither the state nor the secret services should exist to serve clans.”

A third uncertainty hovers over the political right. In the past, corruption scandals have damaged the electoral prospects of political parties on both left and right. Often, as the whiff of mouldy politics wafts from the mainstream parties, the beneficiaries are on the political fringes, notably the far-right National Front. Jean-Marie Le Pen, the front's leader, has been quick to capitalise on the mainstream right's woes, lamenting the “state lies” of a “banana republic” government. The more complex the Clearstream affair seems, the harder it will be for ordinary voters to determine who is in the right—and the more likely it is that they will conclude that the whole lot are rotten.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

France and immigration

Let the skilled come

May 4th 2006 | PARIS
From The Economist print edition

A shift towards more selective immigration

“IF CERTAIN people don't like France, they shouldn't hesitate to leave.” With this echo of a notorious National Front slogan, Nicolas Sarkozy, the French interior minister, transformed the immigration bill that he put before parliament this week into an exercise in populism. But behind the rhetoric is a sensible change, towards a managed, high-skilled, demand-led immigration policy.

AP

Stealing Le Pen's clothes

Until the mid-1970s, most immigrants to France came to work. Since the law was tightened in 1974, the inflows have changed. Today, only 7,000 permanent workers arrive a year, down from over 170,000 in the late-1960s. Three-quarters of legal entrants to France are family-related: spouses, children and sometimes extended families of those already in the country. France has a low proportion of skilled immigrants.

Mr Sarkozy's bill aims to reverse this trend, by introducing selective immigration. There will be yearly targets for three categories of incomers: workers, students and families. Skilled migrants will be encouraged through a new three-year “talent” work permit. The bill includes measures to encourage foreign students. But it also requires newcomers to take lessons in the French language and civic education; it seeks to control family-related immigration, by clamping down on bogus marriages, and tightening up the rules to ensure that those bringing in a family have the means to pay for them; and it cracks down on illegal immigration by scrapping the automatic right to stay, granted after ten years in France illegally, and stepping up deportations.

Opposition to the bill is fierce. The Socialist Party accuses Mr Sarkozy of shamelessly trying to seduce the far-right vote, thereby putting principles of generosity and tolerance in peril. The

Council of Christian Churches in France has written to Dominique de Villepin, the prime minister, to express concern at the law's harshness.

Mr Sarkozy is unapologetic about linking France's social troubles, including last autumn's suburban riots, to immigration and the difficulty of integrating second-generation children. To accusations of mean-mindedness, he replies: “It is not a mark of generosity to create ghettos at the gates of our big towns, where there is only hopelessness and, beyond that, crime.” He argues that, under the pretext of protecting jobs at home, France has created a system that lets in only those who have neither a job nor any useful skills.

In many ways, Mr Sarkozy is simply following the practice of other countries, notably Australia, Canada and Switzerland, as well as Britain and the Netherlands. In each case, the policy is based on a recognition that there is no such thing as zero immigration, and that a managed, skills-based immigration policy will not only control inflows but also bring benefits to host countries. As Mr Sarkozy, who is of Hungarian origin and recognises “what an open France gave my family”, told parliament this week, a policy based only on blood ties would be “synonymous with national decline”.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

German politics

Extreme sports

May 4th 2006 | BERLIN
From The Economist print edition

Widely expected gains by extremist parties in Germany may not happen

AMONG the keenest supporters of a “grand coalition” of the main centre-right and centre-left parties last November were parties at the extremes. On the right, this meant the neo-Nazi National Democrats (NPD); and on the left, the Left Party, comprising eastern Germany's former communists and a western ally, WASG. Both far left and far right, in various different guises, gained ground during the grand coalition of 1966-69, when the NPD almost got into the federal parliament.

But Germany had not then fully addressed its Nazi past. And the success of the extremes proved temporary, as it may do now. Last week the two camps hit the headlines when a WASG leader, bizarrely, defected to the NPD. Although the Left Party comfortably got into parliament last September, WASG did not cross the 5% threshold at recent state elections in the west. Unlike the Left Party's disciplined ex-communists in the east, WASG seems like a political nursing-home for tired and bickering old trade unionists and radicals.

Ideological infighting could even sabotage the planned full merger of the Left Party and WASG. The Berlin section of the WASG, dominated by Trotskyites, intends to run against the ex-communists in Germany's capital next September. Eventually, the two groups will probably join: a chaotic WASG party congress last weekend agreed to discipline its dissidents. But a unified Left Party will still be a largely regional one, rooted in eastern Germany.

On the right, the NPD is also a mostly eastern German phenomenon. Its biggest success was in Saxony in September 2004, when it took 9.2% of the vote. But that reflected a long-term strategy of investment in the state. The NPD no longer seeks only to defend the Third Reich, but also offers a rhetoric of resistance to global capitalism; and it has forged alliances with other far-right groups, including the German People's Union, or DVU.

Since its success in Saxony, the NPD has lost momentum. The party and its allies have failed to cross the 5% threshold in later state elections, even in Saxony-Anhalt, where the DVU took 12.9% in 1998. Three of the NPD's 12 parliamentary members in Saxony defected last December, accusing the leadership of being too authoritarian. The NPD will try to make its voice heard again in protest rallies during the football World Cup, and hopes to stage a comeback in Mecklenburg-West Pomerania's election in September, but its chances do not look great.

The defection of a WASG leader to the NPD will discredit both extremes—especially as the man faces charges for allegedly attacking a former girlfriend. Yet it is too early to conclude that neither the Left Party nor the NPD can gain from the grand coalition. Germans may hesitate to vote for the far left or far right, but they are not wild about the alliance of their main parties in the centre. In recent state elections, abstentions have run at record levels. If the grand coalition disappoints, more voters may yet opt for the extremes.

Italy's government

Finalmente!

May 4th 2006 | ROME
From The Economist print edition

Silvio Berlusconi goes, but Romano Prodi still has problems

Reuters

A MERE three weeks after losing the election, Silvio Berlusconi resigned as prime minister on May 2nd. Characteristically, he claimed that his had been the best government in the history of the Italian republic. It was certainly led by the worst loser: Mr Berlusconi refused to congratulate the winner, Romano Prodi, insisting that the centre-left had fiddled the vote.

The media tycoon, who will stay as caretaker until a new government is formed, was forced out after last weekend's votes for the two speakers in parliament showed that Mr Prodi had a majority in both chambers. But in the Senate, it took four attempts to elect the centre-left's choice, Franco Marini. At times the proceedings dissolved into hilarity as senators argued over the correct form of the candidate's name.

The outcome nevertheless clears the way for Mr Prodi to form a new government—eventually. Before then, however, a new head of state must be chosen. President Carlo Azeglio Ciampi reaches the end of his term on May 18th and he is unlikely to have time before then for the elaborate consultations with party leaders that are required before a president can name a new prime minister. This week Mr Ciampi turned down a plea by the centre-right to stay on. No wonder. Italy's 85-year-old president has been looking forward to a well-earned retirement and would be 92 by the end of another presidential term.

Mr Ciampi, a punctilious interpreter of the constitution, was a constant thorn in Mr Berlusconi's side. His new-found merit in the eyes of the centre-right was that he might have blocked the election of somebody more closely aligned with the centre-left. Mr Prodi's followers have a majority in the college that will decide the presidency, and after a third ballot a simple majority will be enough. Mr Ciampi's refusal to run again has increased the chances of the job going to Massimo D'Alema, a former prime minister who previously had hopes of winning the speakership of the lower house, which went to Fausto Bertinotti, a harder-line former communist.

If Mr D'Alema gets the nod, it could ease Mr Prodi's immediate difficulty, which is to form a government agreeable to his allies. A non-party expert, Tommaso Padoa-Schioppa, is expected to take the finance ministry. A former board member of the European Central Bank and an architect of European economic and monetary union, Mr Padoa-Schioppa would do much to restore the markets' confidence in Italy. It is the other portfolios that could prove divisive.

Mr D'Alema's party, the Democrats of the Left, which grew out of the old Italian Communist Party,

is the biggest in the centre-left alliance. It failed to win either of the powerful speakerships and keenly feels it is overdue a glittering prize. The presidency suits nicely. But it is a fine judgment whether the choice of a former communist as president would help or hinder Mr Prodi in the long run.

Apart from Mr D'Alema, the other centre-left runners include another former prime minister, Giuliano Amato, and Mr Marini. Mr Berlusconi is backing his factotum, Gianni Letta. The election of any candidate not agreed with the centre-right would infuriate not only an already embittered Mr Berlusconi but also some of his more reasonable allies. That, in turn, might dash any remaining hope of the two sides collaborating on the reforms that Italy so desperately needs.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Dreaming of Bolivian moments

May 4th 2006
From The Economist print edition

What the renewed debate over the European Union constitution really means

IT IS said that, when Brazil once wanted a new constitution, a posse of American lawyers descended, bearing advice. “What do we need Americans for?” went the cry. “They've only had one constitution. We need Bolivians. They've had hundreds.”

The European Union may be about to have a Bolivian moment. Over the next few weeks, everyone and his dog will be offering advice about the EU constitution. Next week, the European Commission will present its proposals; Angela Merkel, chancellor of Germany and thus leader of the traditional guardian of EU integration, will deliver hers. Two weeks later, EU foreign ministers will debate the matter. All this will culminate in a summit in mid-June, which will mark the end of the “pause for reflection” begun last year, after French and Dutch voters so rudely interrupted the drive to a constitution.

This flurry of activity is extraordinary for many reasons, but perhaps most of all because those involved know nothing will come of it. No constitution will be passed into law any time soon. There will not even be an agreed plan. The “period of reflection” will be extended into 2007, and maybe into 2008.

It would be nice to think that this is because the EU is a normal democracy in which leaders have taken note of the French and Dutch votes. But the EU is not that. Fourteen countries have ratified the constitution (five of them since the French and Dutch noes) and two more are about to, even though it may never come into force. As the buzz of debate makes clear, respect for the people's

vote does not explain why there will be no EU constitution for some time to come.

The problem is that governments cannot agree on how the constitution should be resurrected. France—or at least its president—wants to salvage what it can by cherry-picking bits that can be passed into law without another referendum. Other countries, including Italy, want to revive half the treaty and junk the rest. Still others insist on the whole constitution and nothing but the constitution, and propose that the French and Dutch voters should try again. In other words, there is no consensus. As the foreign minister of Austria, which holds the EU's rotating presidency, concludes, “this issue cannot be settled satisfactorily and conclusively for all 25 member states at the present time.”

It is tempting to conclude that the constitutional debate is therefore much ado about nothing. But that would be wrong. The real lesson of the re-emergence of debate is that the drive to create an EU constitution is as strong as ever. It has not been daunted by defeat at the polls. It remains unfazed by a lack of agreement among governments. And it has shrugged off all doubts about how necessary a constitution really is.

Those doubts are considerable. Some institutional reform would be a good idea. The EU's foreign-policy arrangements, for example, are a shambles, and the Buggins's-turn principle of the EU's rotating presidency is idiotic: every six months a new country takes over the EU agenda. But foreign-policy making could be streamlined without a constitution. The presidency has started to develop some features of greater permanence, which could be nudged along. The EU showed last December that it is capable of setting budgets over the next seven years without a constitution (admittedly, the budget was a dog's dinner, but that is another matter). Anyway, the efficiency of the system is not decisive. Like most big governmental structures, the EU is not designed to be efficient; it is meant to be constrained by checks and balances.

Equally, the constitution cannot solve the EU's growing problems over enlargement. Support for bringing new countries into the club is ebbing both at the popular and the governmental level—despite a mass of evidence that existing members have benefited as much as new ones from previous expansions. (This week, a study from the European Commission concluded that there has been no significant loss of jobs to the east, and that increased trade has raised incomes everywhere.)

In some ways, indeed, the constitutional debate has become a way of avoiding a debate over enlargement. As originally planned, it would have been agreed before the new members from central Europe had established real influence inside the club. This suggests that a better way to deal with enlargement fatigue might be to keep advertising the benefits of expansion (national governments must do this, as well as the commission), and guard the credibility of the process more carefully. The commission is about to pronounce on whether it thinks Romania and Bulgaria have met all the criteria for accession next year. If Bulgaria (say) has not, it would be best if the commission said so.

Avoiding the C word

If all this is true, why do governments insist on still discussing the constitution? The answer may be that they believe a continuing debate over the subject is the best hope for reversing a growing public disenchantment with the entire European project. Yet there is not much evidence to support any such belief. In popular votes, the constitution has failed twice, in France and the Netherlands; and it has passed twice, in Spain and Luxembourg. Few electorates seem to be demanding a new constitution now. Traditionally, however, the EU has always tried to win support through grand integrationist projects (“the union must dream,” said Jacques Delors); the constitution just happens to be today's embodiment of such a dream.

This impetus will not fade. For those who do not share it, or who want the EU to grow organically rather than by design (a group that includes not only the British government but much European public opinion), the latest debates may be something to endure, rather than to take part in. It might be better to wait until 2008, when the EU is supposed to undertake a root-and-branch review of how and where it spends its money, and only then try to hammer out new institutional arrangements—quite possibly without using the C-word at all.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

London

There goes the neighbourhood

May 4th 2006
From The Economist print edition

How London has changed in the past 108 years—and how it hasn't

AT THE end of the 19th century, an intrepid social scientist visited Stockwell, in south London. He was involved in an ambitious project, led by the shipping magnate Charles Booth, to colour-code every street in the capital according to its social make-up. In general, the area struck him as comfortable. But just east of Stockwell Road he found a pocket of filth and squalor, with rowdy residents and broken windows. It was, he believed, “far the worst place in the division”.

Since then, the area has been transformed. Dismal two-storey cottages have been swept away and replaced by grass and the apartment blocks of the Stockwell Park Estate. But the appearance of the neighbourhood has changed more than its character. Julie Fawcett, who lives in one of the blocks, characterises her neighbours as “the mad, the bad and the sad”. Unemployment is more than double the borough average. Next to the very street that appalled the Victorian social scientist is one nicknamed Heroin Alley.

In many ways, London has changed dramatically in the past century. It has sprawled far beyond its 1898 boundaries. The network of underground transport has expanded, and cars have appeared. The city has been bombed in two world wars. The middle classes fled, then returned. Yet when Booth's maps are updated using data from the last census, the changes are less striking than what has stayed the same. Not only do the broad patterns found in the 19th century hold—the East End is still poor, the West End still rich—but so do many local ones.

Booth's method of judging streets was necessarily impressionistic. Researchers peered through windows and into back gardens in search of clues. A torn waistcoat on a clothes line in Kentish

Town, north London, “told clearly of working-class occupants”. Police officers were asked their opinions. Of the residents of one street in the south London neighbourhood of Battersea, the local copper asserted: “People have improved their houses but not their manners.” That road was coded black, for “vicious, semi-criminal”—the lowest of seven categories.

Sadly, the 2001 census does not measure viciousness. But it does measure people's socio-economic status. By collapsing its eight categories, and Booth's seven, into four, it is possible to see how a neighbourhood has changed (or not changed) over a century.* The map on this page shows the results for one area that has altered more than most: north Chelsea.

In 1898, Chelsea was socially mixed, and neither especially rich nor especially poor. Booth's researchers found some well-to-do residents in the Georgian terraces and on the main roads; before the advent of cars, busy roads were often smart. Dodgier folk crowded into the squalid courts and alleys. Worst was a now-demolished street southeast of the Fulham Road, the neighbourhood's main drag, which featured “evil looking drink sodden old Irish women”.

Chelsea is now one of the toniest parts of London. Had they walked the same streets a century later, Booth's researchers would no doubt have noticed designer clothes shops and a high concentration of Porches and BMWs. Managerial and professional workers are now the dominant group in the area. Many streets that were middling in Booth's day are now wealthy, and some pockets of deep poverty have disappeared.

But poverty has not been altogether banished from this part of Chelsea, nor has it moved much. Most of the poorest areas in 2001 were also poor in 1898, and in almost exactly the same places. The reason is that the worst Victorian slums have been knocked down and replaced with tracts of social housing. Some of this housing was built by charitable trusts in the early 20th century; a nastier, post-war edifice just north of Draycott Avenue is the responsibility of the council.

When Chelsea's mean streets escaped the wrecking ball, they invariably went up-market. The houses of Caroline Place were “poor and rather rough”, with “some Irish” inhabitants, in 1898. Two- and three-bedroom houses in the street, since renamed Donne Place, now sell for £1.5m ($2.8m), according to Nick Boden, a local estate agent. (He describes the neighbourhood as “prime, prime, prime”.)

The same trend can be seen in many parts of the capital. Dubious areas that kept their housing stock have often improved. The terraced streets of Islington, which were patchy in Booth's day and later became patchier still (in 1971, fewer households had exclusive use of a bathroom than anywhere else in London), are now notoriously middle-class. But where vertical social housing replaced slums, poverty has been fossilised. So has some of the viciousness that Booth found.

Scott Orford of Cardiff University says that London's social housing has become “residualised” in the past few decades. The better council properties, and those in areas where most homes are privately owned, have often been sold to their residents under the “right to buy” scheme introduced by the last Conservative government. Flats on high-rise estates have proved less popular, and are more likely to have stayed in the hands of local authorities. The public housing that remains in London thus contrasts more sharply with its surroundings.

The social geography of London may change even less in the next 108 years than it has done since 1898. There are, after all, fewer poor neighbourhoods with pretty housing, of the kind that may be colonised by middle-class pioneers. The supply was beginning to dry up even in the mid-1960s, when the hero of Michael Frayn's novel “Towards the End of the Morning” tries to find one. Following a frustrating search, he admitted defeat: “There was no shortage of slums; but they were not Georgian or Regency slums.”

*A full explanation of the method used is available here

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Tax avoidance

Holes in the net

May 4th 2006
From The Economist print edition

Shopping for low tax rates is no crime

THE difference between tax evasion and tax avoidance, Denis Healey, a former chancellor once said, is the thickness of a prison wall. Now, it seems, it is the thickness of a lawyer's brief. Two rulings this week, one European and one British, grappled with the conundrum of how authorities in one country levy tax on profits earned in another. The first makes it easier for British companies (and, by extension, other European firms) to cut their tax bills by setting up subsidiaries in low-tax jurisdictions, while the second makes it harder for British individuals to do the same.

In the first case, brought by Cadbury Schweppes, which makes soft drinks and confectionery, the European Court of Justice (ECJ) looked at whether Britain could impose a top-up tax on profits that Cadbury had earned in two subsidiaries in Ireland. It was no idle question. The Irish tax rate was just 10% while Britain's was 30%; the taxmen demanded the difference. On trial was the British practice of peering into a firm's heart, examining its motives for setting up a foreign subsidiary and imposing its own tax rates on profits earned there if it finds the impure desire to pay less tax.

Philippe Léger, the ECJ's Advocate General, ruled on May 2nd in a non-binding opinion that wanting to minimise tax is no crime: companies may happily shop around for the lowest rate when deciding where to establish subsidiaries. Ireland, Luxembourg, Estonia, Lithuania, Latvia, Hungary, Poland and Slovakia all have corporation-tax rates below 20% and stand to gain if firms are allowed to hunt for low tax rates as they do for low wages.

This was a blow for the British government, which is trying to protect its revenue base from the encroachments of European integration. Last year it failed in an attempt to ring-fence tax losses made by foreign subsidiaries of Marks & Spencer, a retailer. “We are seeing the ever-increasing erosion of member states' sovereignty on the issue of national tax,” says Mark Persoff of Clifford Chance, a legal firm.

But Mr Léger also imposed strict conditions, upholding Britain's right to keep some of its anti-avoidance laws on the books even as he narrowed their scope. Profits earned at brass-plate operations with directors hired from central casting would probably be considered “wholly artificial arrangements” set up primarily to evade paying tax and could find themselves back in the British tax net. Although the ECJ need not abide by Mr Léger's opinion, it is likely to do so when it reaches a final decision by the end of the year.

The Cadbury case affects only “single-digit millions” in tax but it will set an important precedent. More than 20 other firms have similar cases pending. That may cost Britain's Treasury several hundred million pounds, says Anton Hume, a tax partner at Grant Thornton, an accountancy firm. This is a hit that Britain's widening budget deficit can ill accommodate.

But all is not lost to Britain's tax collectors. In another recent ruling, they won the right to force Barclays, Britain's third-largest bank, to hand over information on hundreds of thousands of accounts that are held offshore by customers domiciled in Britain. The ruling is part of a campaign to root out tax evasion by Britons who have moved their money to offshore centres such as the Channel Islands but then neglected to declare the income on it to the authorities back home.

The decision may yield as much as £1.5 billion ($2.8 billion) in previously unpaid tax, according to the taxmen. “It's a straightforward victory for HM Revenue,” says Richard Murphy of Tax Research, a consultancy, adding that similar orders will likely be obtained against other banks.

Many British holders of offshore accounts will feel cheated, as they thought they were complying with the European Savings Directive which came into force last July. The directive was a messy compromise aimed at bringing into official tax nets the billions of euros stashed in countries where bankers ask few questions and answer even fewer. Account-holders in such tax havens were given two choices: to forfeit anonymity, or to pay a flat tax—of 15%, to begin with. Many chose to pay up and shut up. That looks less clever after this week's ruling.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

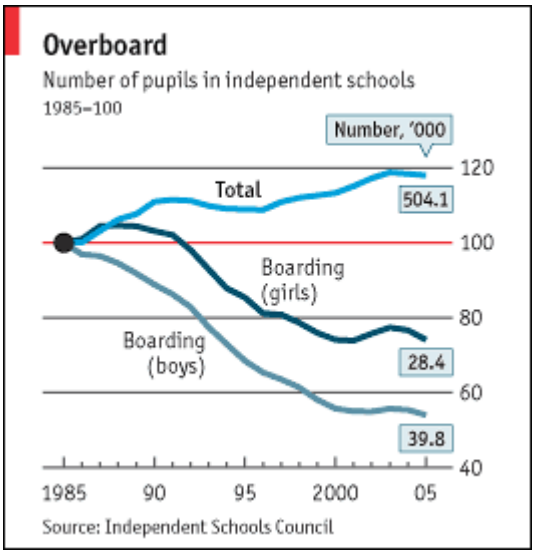
Boarding schools

Labour's great experiment

May 4th 2006
From The Economist print edition

Would children in care do better at boarding school?

TO FOREIGNERS, few things seem as peculiarly British as the habit of sending young children away from home to school. At first glance, boarding schools are thriving, with almost 70,000 children within their walls. Independent education (both day and boarding) produces better-than-average academic results: they teach only 7% of English pupils but supply 38% of those gaining three or more A grades in the A-level exams taken at age 18.



Yet some boarding schools are struggling. While the demand for private schools has increased over the past 20 years (see chart), the number of children at boarding schools has dropped sharply—from 112,135 in 1985 to 68,255 in 2005. The decline levelled off four years ago, thanks, say some, to the popularity of the Harry Potter books. But the only numbers that have risen significantly are those of students whose parents live abroad.

One reason why boarding schools have lost some of their appeal is high fees—the average is around £18,830 ($35,470) a year. Lurid stories of children who harm themselves or take drugs, far from parental eyes, have not helped. Some schools are in trouble financially: three mergers have taken place this year; one school in Buckinghamshire will close in August; and another, in Sussex, was recently rescued by parents.

Yet Adrian Underwood, national director of the Boarding Schools' Association, describes the future as “rosy”. His optimism stems partly from renewed political interest in taking children from foster care and children's homes and sending them to boarding schools instead. Only 6% of those in care in 2004 got five good grades in their GCSE exams (taken at about 16 years of age), compared with 53% of children overall. Boarding schools can offer small classes and good discipline, helping pupils to counter the low expectations that prevent them from achieving all they could.

The idea has been around for a while. A handful of charities as well as some local authorities already pay for a few hundred children to board, many of them in the state sector's 36 excellent boarding schools. But the thinking has become more ambitious. The prime minister and his acolytes are convinced that many vulnerable children could benefit.

A working party in the Department for Education and Skills has spent months looking at ways to expand the programme. Pilot projects are due to start in September 2007. Among the 80 or so schools that are interested are Wellington, an independent senior school in Somerset, and the

Dragon School, a preparatory school in Oxford. John Walker, speaking for Britain's prep schools (which educate children from ages seven to 13), says they could take pupils as young as five years old.

Local authorities are less enthusiastic. Schools want full responsibility for the children they accept, while councils and social workers want to be able to check up on them. Some think that removing children from any version of parenting could have damaging long-term effects. Holidays are also problematic: the Fostering Network, which represents foster-carers, says that many foster parents are unwilling to have children only for the holidays.

Those who think boarding schools could work magic on many vulnerable children chafe at the slow pace of progress. Lady (Mary) Richardson, head of the HSBC Education Trust, which now sponsors some 90 specialist schools and is considering taking part in this scheme, calls the plight of these children “immoral”. Another charity, the Royal Wanstead Children's Foundation, already pays for some children to board. It wants the government to spread its new grants more widely, to include poor children who are not in care.

For boarding schools, both those with an idealistic streak and the financially strapped, the appeal of increasing numbers is clear, as long as other parents don't squawk. They have another reason to be keen. New laws will soon require charities to justify their tax breaks by proving that they benefit society at large. Independent schools, 80% of which have charitable status, reaped £88m in tax rebates in 2004. Accepting a few needy children might well safeguard that status.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Foreign prisoners

Who wants to sort out home affairs?

May 4th 2006
From The Economist print edition

Why the Home Office is in such a mess

FACED with calls from the Conservatives and Liberal Democrats for his head, Charles Clarke, the embattled home secretary, has adopted an unusual defence. Mr Clarke argued this week that his department was in such a mess that he should be allowed to stay on and sort it out. He also mused about introducing a new law to force parts of his fief to do things they are already meant to do. This went some way to distracting attention from the 1,023 foreign ex-cons who were not considered for deportation on their release from prison over the past six years, and specifically from 38 of the 79 most serious offenders among them who are still unaccounted for. But stories of foreign re-offenders still hog the headlines.

Is the Home Office really that bad? And, if so, what might convert it from a chaotic place with a tendency towards recidivism into a respectable pillar of society?

There are three main theories about what is wrong with the Home Office. The first is that a ministry which incorporates the police, prisons, probation, immigration and asylum is just too big to be presided over by a single minister. This accumulation of tasks does have a bureaucratic logic: agencies under the same roof ought to co-operate. But in practice they don't.

The past four annual reports from the prison inspectorate (which answers to the home secretary), have said that increasing numbers of foreign prisoners had created problems which the immigration service (part of the Home Office) and the prisons service (ditto) had failed to address. Some prisons, the report in 2002 said, did not know how many foreign nationals they held. The following year the inspectorate noted the “dilatory attitude of the Immigration Service which, unless pressed, was not monitoring those liable to deportation,” or arranging for this to take place.

If the Home Office is too big, should it be broken up? The Tories argue that some of its responsibilities should be spun out into a Department for Homeland Security, with its own minister. Tony Blair rejected the idea on May 3rd, and the Tories have not pushed the point in case they make Mr Clarke's failure appear more forgivable.

Besides, one former home-office minister reckons, splitting up the department would create as many problems as it might solve. The problem, he argues, lies instead with the culture of a department that does not seek out and promote talent, and in which civil servants “tend to think that writing policy papers for ministers comes first, writing legislation second and fixing problems third”. Ken Clarke, a Tory MP who has run the finance, education and health departments as well as the Home Office, rejects the idea that it is too big for one minister, or that “the various bits of the Home Office will liaise better if you put them in separate departments.”

A second theory explains the Home Office chaos as an inevitable result of the department's recent workload. Chaos theorists note that in the summer of 2001, when the Chief Inspector of Prisons

detected failures in the system, the home secretary's attention was taken up with race riots in Bradford, Burnley and Oldham, and working out what the September 11th attacks in America meant for Britain. No wonder, they say, things that do not seem urgent are left undone.

Though there may be some truth in this, it amounts to a depressing assertion that there is no way out of inept government. It also ignores a third reason for the Home Office's dysfunctional behaviour, which lies closer to home—the hyperactive drive of its leaders for new legislation. Mr Clarke's promise to hold a consultation on a new law that would create a presumption in favour of deporting foreign criminals is a good example. This is clever politics, as it puts pressure on the opposition parties to back the government. But the home secretary already has powers to deport foreigners if their presence is not conducive to the public good. A better use of Mr Clarke's remaining time at the Home Office would be to wean his department off its dependence on new laws and concentrate on solving problems.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Immigration

Punting Poles

May 4th 2006
From The Economist print edition

A wider Europe, afloat on the Backs

WIELDING a pole to pilot a punt is a skill that is rare outside the gorgeous waterways of Oxford and Cambridge, and unknown in the ex-communist world. But nearly half of the 60-odd employees at Scudamore's, Cambridge's biggest punting-rentals firm, are from eastern Europe, chiefly Poles. The newly-arrived start off cleaning the boats; veterans of a summer or two, who have learnt to punt and chat to tourists in English, graduate to being “punt chauffeurs” on £14 an hour.

A tough job, but someone has to do it

The firm's owner, James Macnaghten, says that east Europeans are a huge improvement on the local workforce: harder working and more dependable. “It's the difference between the person who clocks off five minutes or so early, and the one who stays on ten minutes later to help you pack up,” he says.

Estimating the overall effect of this influx of enthusiastic low-cost labour is hard, although a recent study by Ernst & Young, an accountancy firm, suggested that without it Britain's GDP would be 0.2% lower. In fact, nobody knows how many workers from what were once called captive nations are actually in Britain. The government's official (but voluntary) worker-registration scheme records 345,000 since Britain opened its labour market to such workers in 2004.

But, notes Dhananjayan Sriskandarajah of the Institute for Public Policy Research, a think-tank, this disguises “huge churn”. Workers may register and then leave the country. Others may not register at all. It costs £70, and the advantages it offers, such as the right to claim the dole in future, may seem flimsy. It is the prospect of work, not state benefits, that attracts east Europeans to Britain.

Four other west European countries—Spain, Portugal, Finland and Greece—opened their labour markets on May 1st to workers from the new Europe, while France promises partial liberalisation and Holland is thinking about it. But that will do little to dent Britain's lead. A widely-spoken language and thriving networks incorporating previous immigrants still make Britain a prime destination, with Ireland close behind.

Does continuing the hit-or-miss registration scheme make sense? The government considered scrapping it altogether on May 1st, but decided not to. One reason is that some existing formalities could come in handy if, as seems likely, the EU expands on January 1st 2007 to include Romania and Bulgaria. It has not yet been decided whether workers from these two countries, which will be the poorest in the EU, should be given free access to Britain's job market. Mr Sriskandarajah's institute reckons that, if allowed, 41,000 workers are likely to come from Romania, and 15,000 from Bulgaria. The government could scrap the registration scheme for Poles and the like, while keeping it for the newcomers.

The registration scheme may produce misleading figures, and it is a curious use of official time and energy at a moment when bureaucrats are too busy to deport foreign rapists. But it is a sop to public opinion, which is twitchy about Britain's increasingly open borders.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

The wheels on the bus

May 4th 2006
From The Economist print edition

Ridiculed if not loathed, is the government falling apart?

ALL long-lived governments have a natural lifespan before the bits start falling off. At some point, they lose the discipline and sense of purpose to carry on. Sheer physical and intellectual exhaustion gets them. They become accident-prone, relationships fracture and a death-wish often settles on their supporters in Parliament.

It happened to Labour in 1951, and to the Tories in both 1963 and 1992. In the first two instances, electoral nemesis was swift and merciful. In the third, what followed was, in the words of Norman Lamont, the chancellor who presided over the pound's expulsion from the European Monetary System (ERM), four excruciating years of being “in office, but not in power”. After the battering of the past ten days, has the government of Tony Blair succumbed to something similar?

Such judgments are easier, of course, with the benefit of hindsight. It is clear now that the ERM debacle was a moment of no return for John Major's government. After that day, the party's reputation for economic competence was irreparably damaged—though, paradoxically, its management of the economy subsequently improved. But at the time, once the initial shock had worn off, there was a sense of relief and even some optimism that it had all been for the best.

A year from now, “triple-whammy Wednesday” may be only a distant memory—or it may be seen as the moment when the wheels finally came off New Labour. Just nine days on, it's too soon to

say which view will prevail. The difficulty in reaching a verdict now is that the three events of the day were unconnected and, individually, were more embarrassing than significant. Being heckled by stroppy public-sector unions (the fate of Patricia Hewitt, the health secretary) is an occupational hazard for reforming ministers, while, like the poor, Home Office cock-ups and lecherous old fools like John Prescott will always be with us.

That is not to minimise the sheer awfulness of the mess Charles Clarke, the home secretary, has got himself and the government into. He was unbelievably late in realising that large numbers of foreign criminals were being released rather than considered for deportation after finishing their prison sentences. He was incredibly slow in getting to grips with the problem. It is indeed, as the home secretary said, “a shocking failure”.

Mr Blair may have calculated that keeping Mr Clarke in his post until after May 4th's local-government elections made sense. But, while sacking Mr Clarke would do little to improve the workings of the Home Office, it would make it easier for the government to move on. Although formidable in appearance and manner, Mr Clarke is not quite the cabinet bruiser he is cracked up to be; he is a rather complaisant minister with a reputation for going native in the departments he has been given to run. If he returns to the backbenches after the imminent reshuffle it would not be a disaster for Mr Blair.

Nor would losing the services of Mr Prescott, the philandering deputy prime minister. Were Mr Prescott to express a wish to spend more time with his family, perhaps retaining his largely meaningless title while surrendering most of the responsibilities vested in his sprawling department, Mr Blair should not stand in his way. When Margaret Thatcher lost Nigel Lawson, her chancellor, and Geoffrey Howe, her deputy, in quick succession, both her authority and her government appeared to be coming apart at the seams. The disappearance of Mr Clarke and Mr Prescott would send no such message.

A lot is riding on the cabinet reshuffle that Mr Blair is preparing now. In the past, his cabinet shake-ups have often appeared ill-considered and slapdash. Mr Blair knows that this reshuffle is the most vital of his career. As well as providing a necessary distraction from the results of the local elections, which Mr Blair was expecting to be dire for Labour, it is his last chance to show that the government is still capable of renewal under his leadership. If he leaves too many of the old lags in place and fails to promote fresh talent, he will have flunked the test.

The risk for Mr Blair is that the more he asserts his authority, the more he provokes those who think the only high-profile exit that can help the government is his own. With increasing numbers of Labour MPs demanding that he name the date of his departure, every time Mr Blair demonstrates his undiminished appetite for power the mutinous rumblings grow louder.

No laughing matter

The echoes of failing governments past are loudest in the frenzied talk of many Labour MPs. Calmer heads insist that it is in nobody's interests to force Mr Blair's abdication and few are starry-eyed about Gordon Brown, his likely replacement. But many Labour politicians have returned traumatised from doorstep conversations with voters (or rather non-voters) while they were out campaigning for local-government candidates.

They report that it is hard to exaggerate the cumulative effect of the Jowell family's multiple mortgages, the £7,700 ($14,200) bill for keeping Cherie Blair's hair coiffed during last year's general election, the loans-for-peerages scandal, the stories of thousands of nurses being sacked, the gruesome newspaper pictures of Mr Prescott's hefty cavortings with his secretary and the fear that, courtesy of Mr Clarke, foreign rapists and murderers are prowling every street in the land.

Yet few of the things that people say they are angry about affect their own lives directly—unlike the soaring mortgage rates, rising unemployment and deteriorating public services that did for Mr Major. The real danger for the government is that it is becoming an object of ridicule. MPs are right to be worried, but they should ask themselves whether driving Labour's most successful election-winner from office would make it look more or less of a joke.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY

Award

May 4th 2006
From The Economist print edition

Tim Cross, who writes on energy, transport and utilities for the Britain section, won the Wincott Foundation award for young financial writer of the year.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Russian gas and Europe

Who's afraid of Gazprom?

May 4th 2006 | MOSCOW
From The Economist print edition

Europe should worry about Gazprom, but for different reasons

NO TAPS were turned off nor prices hiked; no Russian bids for European assets were blocked. The ongoing dispute between the European Union and Gazprom, Russia's state-controlled gas behemoth, feels rather like a phoney war. Still, as with actual wars, there is a risk that the heated talk of the past few weeks—the Europeans sanctimonious, the Russians resentful and threatening—might lead to something more substantial. But what, ultimately, can Gazprom do to Europe? How worried should the Europeans really be?

One school—critics would call them Panglossians—thinks the worries are overdone. Although Gazprom controls around 16% of the world's gas reserves and 60% of Russia's, the world's third-biggest firm by stockmarket value is not the menacing bear of European nightmares. Like a spider in a bath, Gazprom is at least as scared of the Europeans as they are of it, because Gazprom and Russia need European cash as much as they need Russian gas.

Because of the low, regulated tariffs for most of its domestic gas sales, Gazprom derives two-thirds of its revenues from the third of its gas that it exports. And, the upbeat argument runs, Russia's pipeline set-up means that all the recent talk from President Vladimir Putin about finding new gas markets is, for the moment, just talk. Gas pipelines are like marriages, only more binding; Russia's run west (as do those for oil, though high oil prices have made eastward deliveries by train feasible). So will a big new pipeline, to run under the Baltic sea to Germany. A Polish minister last week likened the Baltic scheme to the Soviet-German pact that carved up his country in 1939. Gas-transit countries like Poland, acidly comments Sergei Kuprianov, Gazprom's spokesman, should consider Europe's need for reliable supplies, as well as their own profits.

All of which means that when Russian officials swaggeringly talk of capturing a third of Europe's gas market by 2015, they reveal as much about their own dependence on Europe as vice versa. Meanwhile, European noises about other energy sources, and murmurs about renegotiating long-term contracts, just like Russia's schemes for pipelines to China, are designed chiefly to finesse the terms of an inevitably deepening partnership. The alternatives for the Europeans involve more reliance on even less stable countries, or massive investment in alternative energy—and are prohibitively costly. The Russians, too, would face huge costs if they tried to escape the European market.

Unfortunately, the Panglossians are only partly right, for two reasons. The first is that Gazprom is not a normal company. It is beginning to resemble one, but it is still an arm of the Russian state, which has a majority stake in it and dictates most of the big decisions. State ownership in itself need not be a problem—except that Russia is not a normal country. Doomsayers can point to its pursuit of commercially irrational gas policies, such as cut-rate supplies to Belarus (though they may soon end). Dick Cheney, America's vice-presidential doomsayer, this week warned Russia against “intimidation or blackmail, either by supply manipulation or attempts to monopolise transportation.”

It is true that Mr Putin regards economic success as the best route to geopolitical influence. But his successors might be even more tempted to use the power that Russian gas gives them as a political weapon—even if it is a double-edged one. Plus, Gazprom's behaviour sometimes seems to be governed by other motives entirely. Even big projects, such as new pipelines, sometimes seem to serve private interests.

Power games

The Panglossians have an answer to these worries, too: as Gazprom opens itself up to foreign investors, more oversight will mean less irrationality. And while the Russians may use gas to bully ex-Soviet neighbours such as, most famously, Ukraine (which faces another round of negotiations with Gazprom), they apply different rules to the EU. Even during the cold war, gas supplies to Europe were never manipulated. Why should they be in the future?

The other anti-Panglossian argument may be more worrying: for a while at least, there may not be enough gas to go round.

One big difference between Russia and most other big energy-producers is that Russia, an enormous, cold country, is a massive consumer too. Domestic gas demand is rising as the Russian economy grows, along with European demand. Meanwhile, production is falling in the mega-fields in western Siberia that account for the majority of Gazprom's production. Mr Kuprianov maintains that newer, smaller fields are compensating, and points to modestly rising overall production levels.

Critics, such as the International Energy Agency, say Gazprom is spending too much on pipelines and non-core acquisitions, and not enough on developing new fields. It is meeting today's competing commitments by buying up gas from central Asia (thus also neutralising some potential competition for the European market). With this supply squeeze in mind, the drop in exports caused by a spike in domestic demand during the Russian cold snap earlier this year may be a more worrying precedent than the political spat with Ukraine.

Russia has vast reserves of gas, so one possible solution might be to stimulate increased production in Russia by other firms. But these companies lack the best incentive to raise their production, or develop new fields in inaccessible places: the right to export gas beyond the former Soviet Union (which is a Gazprom monopoly). EU officials this week again raised the export

monopoly in an otherwise conciliatory letter to Russia's energy minister. Gazprom defends it fiercely, as fair compensation for its low domestic tariffs. Meanwhile, despite last week's deal between Gazprom and BASF, a German firm, which gave Gazprom a bigger share in gas distribution in Germany, opportunities for foreign investors remain uncertain.

And even when production does climb, the Europeans will face a lot more competition to buy it for themselves. After much prevarication, the vast Shtokman gas field in the Barents Sea will supposedly be developed soon. Much of what it produces will be sold as liquefied natural gas (LNG). LNG, which is much more tradeable and mobile than pipeline-delivered gas, is set dramatically to change the equilibrium of the gas market.

The main market for Shtokman LNG is expected to be the United States. The Americans have warned the EU of over-reliance on Gazprom, and championed the development of Caspian resources. (A Bush administration official says Condoleezza Rice was only advocating a transparent and competitive gas market when, last week, she appeared to warn Greece against further co-operation with Gazprom.) But in the future, like the Chinese and other Asian economies, America will be competing with Europe for Russian resources. Gazprom is expected to name an American partner for the Shtokman project soon; in return, it will want a “downstream” role in America, of just the sort that has been worrying the Europeans.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The EU and Gazprom

Divided and panicky

May 4th 2006 | PARIS
From The Economist print edition

Europe's quandary over Russian gas

THE European Union is meant to develop a collective response to the common problems of its 25 member nations. Instead the panicky realisation that, collectively, the EU is increasingly dependent on Russian gas is leading to infighting and recriminations among the union's members.

Reuters

A special relationship

The Germans, normally the first to urge a common EU policy on almost anything, have responded to their vulnerability on energy by trying to develop a “special relationship” with Russia. Soon after he lost office, Gerhard Schröder, the former German chancellor, took a job with the consortium developing a €4 billion ($4.8 billion) pipeline under the Baltic sea aimed at transporting gas from Russia direct to Germany. Angela Merkel, now chancellor, was in Siberia late last month to meet Vladimir Putin and witness the signing of a deal that will allow BASF, a German company, to make a large investment in a Russian gas field.

Many Poles and Balts find this Russo-German connection alarming—hence the evocation last week by the Polish defence minister of the “the Molotov-Ribbentrop tradition”. The Poles want the EU to develop an energy pact, similar to NATO, in which all EU countries pledge to come to each other's aid in times of energy crisis.

Other EU countries have their own concerns. The British, who like to lecture other countries about the need to be open to global capital, have been fretting about the possibility that Gazprom may make a bid to take over Centrica, which controls much of Britain's gas infrastructure. Any such bid would certainly test the British commitment to open markets. The Italians are uneasily aware of their dependence on Russian energy, but have been too distracted by internal political turmoil to do much about it. The French, because of the strength of their nuclear industry, feel less vulnerable.

As for the EU authorities in Brussels, they are working on an energy-policy document for the June 2006 summit of EU heads of state. On May 2nd the commission sent a letter to Victor Khristenko, the Russian energy minister, promising that the rules applied to Gazprom would be no different from those that apply to other companies in the EU energy market. Yet the letter also restated the importance of ratifying the Energy Charter Treaty, a political initiative which stipulates the right for foreigners to use pipelines. So far, the Russians do not seem remotely tempted to sign—a stance which only heightens fears within the EU that one day Russian gas may become a political weapon.

EU countries could respond by importing more liquefied natural gas (LNG). And they can build new routes like the Nabucco pipeline, which would bring gas from Turkey via Bulgaria, Romania and Hungary. Yet LNG terminals and new pipelines take years to build. They are expensive too: the estimated cost of the Nabucco project is $5 billion.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Siemens

Nip, tuck

May 4th 2006 | FRANKFURT
From The Economist print edition

One of Europe's finest conglomerates needs more radical surgery

KLAUS KLEINFELD, 15 months into his tenure as boss of Siemens, makes a good fist of selling his company as an “infrastructure supplier” well positioned to follow “megatrends” such as urbanisation and the growing demand for water, transport, health care, security and power. Yet he cannot disguise the fact that Siemens is for all that an unfashionable conglomerate that some analysts and investors would like to see streamlined further, or even broken up. Some Siemens divisions, such as power generation, automotive parts and drives, or medical equipment, are world leaders. Others such as business services and communications are languishing.

Reuters

Kleinfeld tries to focus Siemens

“How can one chief executive or one management team oversee all this?” asks Thomas Kitz, an analyst at Merck Finck & Co. Mr Kleinfeld showed his determination to do just that last year by promising to bring the operating margins of each of Siemens' 12 divisions up to a target figure by April 2007. At the halfway point he has already hit the target with six, three others are at least improving their performance and one division (logistics and assembly) has been phased out through integration. That leaves Siemens Business Services (SBS) and Com, which handles mobile and terrestrial communications networks, which are both in trouble. Com is around seven percentage points below its target margin, and SBS is losing money.

Even if Mr Kleinfeld misses next year's targets, his job is unlikely to be on the line. Despite the impatience of some shareholders to see profits across all divisions—the last year that happened was 2000—there is a counter-argument in favour of some diversification. Siemens' power generation and medical divisions, now success stories, were once problem children. Last week Siemens announced the purchase of Diagnostic Products Corporation in Los Angeles for around $1.86 billion (€1.54 billion) as part of its expansion at the pre-treatment end of medical care.

But for Siemens' worst businesses to come good—and hence for Mr Kleinfeld to meet next year's target—analysts think he will have to take drastic action. He has already shown he can be tough.

Last June he sold Siemens' mobile-phone division to BenQ of Taiwan. Even though he had to throw in €133m ($164m) as a sweetener, he at least got it off the books. Investors would like to see more streamlining.

Partially selling Com or hiving it off into a joint venture would do the trick, as long as the deal removed the business from Siemens' consolidated balance sheet, suggests Henning Gebhardt, head of equity investments at DWS, Germany's biggest fund manager. Press reports that Siemens is talking to Motorola, an American company, about just such a deal have been denied so far. But Mr Kleinfeld has not denied that he would sell Com. Even rumours of such conversations are unsettling for Siemens' 163,000 German workers. Some 2,400 lay-offs are already planned at SBS—and further cuts are sure to come. Last week Siemens said that Com would shed 1,000 more workers on top of the 1,500 already lost in the past six months. Siemens has shifted new labour-intensive production abroad, to India, China or Romania, although it relented in 2004 when it gave mobile-phone production to two plants in North Rhine-Westphalia rather than in Hungary.

This decision was part of a landmark deal with IG Metall, Germany's biggest blue-collar union, which extended the working week at those plants from 35 hours to 40. But the deal failed to mark a genuine turning point for German manufacturing. Not only was the mobile-phone division sold, but IG Metall struck back two weeks ago in North Rhine-Westphalia with a 3% pay rise and one-off payments in return for added flexibility with the 35-hour week. Analysts think the new wage agreement, if implemented nationwide as expected, will add about 0.5% to Siemens' German operating costs.

The wage deal illustrates the pressures on a company with a very long history and a very German culture. Only four members of Siemens' managing board are under 50. Even after a reshuffle next October three of the nine-man corporate executive committee will be over 60—and each of them is likely to defend his fief against radical change. Mr Kleinfeld, a boyish 48, probably encountered less resistance as head of Siemens in North America where he implemented a turnaround that shed 10,000 jobs. Running the show at home is more political.

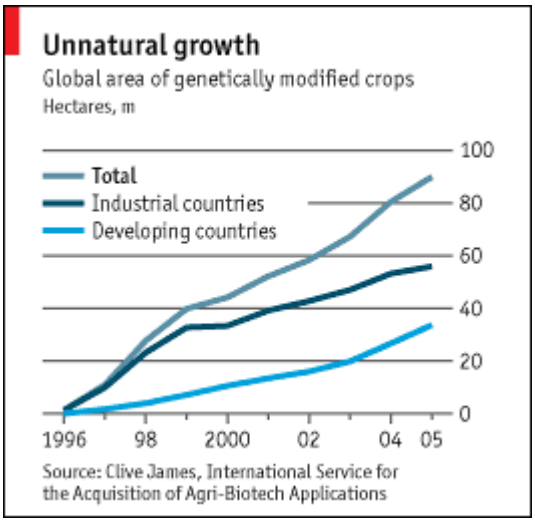
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

GMOs

Up from the dead

May 4th 2006
From The Economist print edition

Genetically modified foods keep on growing



A DECADE ago, Franken-foods mauled Monsanto. The American agribusiness firm had hoped its fancy new seeds, genetically modified organisms (GMOs) designed to reduce pesticide use, would win over farmers the world over. In the event, a consumer backlash fomented by environmental activists in Europe scuppered those plans and even led to the fall of Robert Shapiro, the company's previously high-flying boss.

GMOs remain controversial. Despite a WTO ruling in February striking down Europe's moratorium on GM food, the European Commission pushed the EU's food-safety agency to make its GMO-evaluation process even stricter in April.

Another controversy erupted last month when British officials admitted that more than a hundred genetically modified trees are being grown in secret locations around the country. That reversed the government's previous position, and embarrassingly came on the heels of a rancorous UN meeting in Brazil where representatives warned that fast-growing GM trees could “wreak ecological havoc” by crowding out other species.

Companies that pursue GMOs are also still being hounded. On April 26th, DuPont faced a shareholder resolution at its annual meeting demanding that the firm “disclose any potentially material risk or ‘off-balance sheet liability’” related to its push into GM foods. The measure failed, but activists have vowed to try again next year—and to pursue Dow Chemical and other firms keen on this technology with equal vigour.

So is this Monsanto all over again, and are GMOs really destined for the rubbish heap of history? Not at all. In fact, there is even reason to think they are at last ready for prime time. One reason is that while the EU has dithered, other parts of the world have forged ahead with GM crops. The technology is now accepted in more than 20 countries, including India, China, South Africa and Iran. Last year the billionth acre was planted, and growth rates remain in the double digits (see chart on previous page). On one estimate, GMOs made up more than half the world's soya crop by area, a quarter of its corn and over a tenth of its cotton.

Monsanto still dominates the $5.6 billion market for agricultural biotechnology. As the market for conventional seeds stagnates, however, rivals are taking aim. Last month, DuPont announced a cross-licensing deal and a joint venture with Syngenta, a Swiss seed giant, to sell GM corn and soyabean technology to seed producers. Peter Siggelko of Dow sees GMOs as such a big business

opportunity that he vows his firm will remain steadfast in the face of activist shareholders: “We don't intend to budge—this is better and safer for farmers.”

Activists complain that GM crops put farmers in the clutches of big business, but farmers in many countries do like them because they are pest-resistant or give better yields. Researchers at Monsanto and elsewhere are working quietly on the next potential breakthrough in agriculture: drought-resistant crops, which are meant to help farmers cope in an increasingly water-scarce world. The best news for boosters of GMOs is that a wave of innovative new foods is now coming out of the laboratories with properties that should directly benefit consumers.

Researchers in Pittsburgh have recently raised GM pigs that produce omega-3 fatty acids. These compounds, which help reduce the risk of heart disease, are typically derived from fish, and so taste unpleasant to some and carry the risk of increased mercury consumption. If pork is not to your taste, Monsanto and BASF will soon offer you soyabeans enriched with omega-3. Researchers in Arizona have just come up with an oral tuberculosis vaccine produced from a GM crop, while a rival team has come up with an oral vaccine produced in GM tobacco plants that can fight the *E. coli* bacterium (a common source of food poisoning).

Such “nutraceuticals” are undoubtedly impressive, but the biggest GMO success may come from a product that virtually every home owner with a lawn or garden will appreciate. Scotts Miracle-Gro, an American lawn-care firm, recently announced that it is developing genetically engineered strains of grass that are pest-proof and that grow so slowly that they may require no mowing. Yet even this breakthrough could prompt criticism—for it could mean that the only form of exercise taken by many middle-aged men will soon be history.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

Japanese toys

Playtime

May 4th 2006 | TOKYO
From The Economist print edition

Toymakers are bringing childhood back to adults to broaden their market

TOYS are usually among the first industries that migrate to low-cost economies. And toymakers generally need plenty of children around. So it might seem like something of a miracle that Japan—the richest big country in Asia by far, and one that has an ageing and shrinking population—has retained a vibrant toy industry. A stress on technology and design is the predictable part of the reason why. Less obviously, Japanese manufacturers have realised that they can expand the ¥700 billion ($6 billion) domestic market for toys, by marketing to adults as well as children.

Japanese men in their early middle-age can now relive the hit television series of the 1970s, which featured super-heroes and super-robots piloted by brave men out to save the world. These champions are now back, with more gizmos. Robot Okoku (kingdom), a shop in Akihabara, Tokyo's geek district, has sold a couple of thousand remote-controlled robots, made by Kondo Kagaku, in the past two years. The walking robot has 17 motors and a 100-page manual and costs ¥126,000 ($1,105). Most customers, says Yamato Goto of Robot Okoku, are men who had fantasies of piloting their hero robots. Now, they can go into battle at robot tournaments held across the country.

Toymakers are rushing to come up with other new toys that appeal to adults. They are taking advantage of a growing trend among busy *salarimen* to put more emphasis on relaxation and fun. The stores in Akihabara that sell models and robots costing several thousand yen are not the only ones that are doing well. Retailers have also discovered that cheaper “masked raider” belts aimed at children have been a surprise hit among 30- and 40-year old men, highlighting the potential of a broader market for nostalgia.

Toys that help people to relax have also boosted sales. *Primo Puel*, a cuddly doll version of a five-year old boy, is fitted with sensors and five levels of happiness, can talk a bit and needs care. It has been a big hit with women over 40, whose own children have left home. “Little Jammer”, a toy jazz band, is also a hit—this time with men. *Hidamari no tami* (sunshine people), plastic dolls with simple smiley faces, are hot, not just in Japan but in America too. Other local successes include Sega's Homestar Planetarium, which brings the wonders of the night sky into the living room.

Abandoning high-tech for simplicity has been another surprising success. Toys such as *Yakyuu-ban*, a baseball game on a small field with plastic players who bat and field, have come back with a vengeance. Besides nostalgia and relaxation, there may be a slightly more sinister reason for the popularity of this and similar games. The toys enable fathers and sons to play together, says Fumiaki Ibuki, the editor of *Toy Journal*, a trade magazine, who suggests that parents might want more direct contact with their offspring because of disturbing, much-publicised stories of alienated children committing murder.

As if to underline their success, recent top-selling toys in America and Europe have been Japanese. Their zeal to rejuvenate the Japanese market might eventually turn around toymakers' fortunes abroad, too.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Microsoft

Damned if you do

May 4th 2006
From The Economist print edition

A technology company takes a beating for trying to compete

Get article background

PITY the world's biggest software firm. When Microsoft abuses its dominance, regulators rightly beat it back. But when it tries vigorously to compete, the stockmarket slams it and rivals still race to the regulators.

In April Google complained to competition authorities in America and Europe that an upgraded version of Microsoft's Internet Explorer web browser, to be released later this year, may unfairly harm competition because it could send search queries to Microsoft's own search-engine by default. Although users can easily change the settings to other search sites, Google fears that few will do so, placing it at a disadvantage.

Reuters

Back in court again

Meanwhile, Microsoft's share price plunged 11% in a single day last week after the company said it would spend an additional $2.5 billion to compete against rivals in gaming consoles, search technology and to develop online functions for the new versions of its Office software and its operating system, called Vista.

In recent days Microsoft, which turned 30 last autumn, has been criticised for failing to react quickly to changes in the technology business. Yet its attempts to catch up risk inviting regulatory penalties. On the surface, there is plenty to fear. The extent to which web browsers are open to outside firms is important because they represent a platform for providing services via the internet, overshadowing the primacy of the operating system as the platform for PCs. Whoever controls these platforms is in a position to determine what users can do—as well as steer sales.

So the same regulatory issues that bedevilled Microsoft with its Windows operating system are now cropping up with its browser. Last week the European Union defended its antitrust sanctions in 2004 against Microsoft at an appeals court in Luxembourg. And it has warned the firm that embedding new functions into Vista could run foul of competition rules. In America Microsoft's antitrust settlement with the Department of Justice (for bundling its browser with Windows) expires in November 2007, leaving open the question how the firm will act when it is not under such close regulatory scrutiny.

The business and regulatory challenges facing Microsoft are related, because the firm needs to be free to compete against rivals in nascent markets on the one hand, yet almost anything it does

will invite antitrust concerns on the other. Microsoft's Internet Explorer holds roughly 85% of the market, while the rival Firefox browser boasts 10-15%. But Microsoft lags behind in search. Worldwide, Google has around 50% market share, Yahoo 28% and Microsoft's MSN 13%. The stakes are huge: online advertising in America, today estimated to be worth $12.5 billion, is expected to double by 2010.

At the same time, revenue is starting to emerge from new areas. So PC vendors are able to earn income from software firms for pre-installing their code on machines; web-browser firms can sell to search engines the right to be the default setting (or favour their own brand, as with Microsoft). This should be allowed—it's a free market, after all and Google, not Microsoft, is dominant. Antitrust rules are good for many things, but thwarting competition should never be one of them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Buying American firms

Uncle Sam says yes

May 4th 2006 | NEW YORK
From The Economist print edition

An outbreak of xenophobia-free common sense in Congress

THINGS may be improving for foreign businesses that try to buy American firms. That, at least, is the obvious conclusion to draw from the utter lack of opposition in Congress to the Bush administration's decision to allow Dubai International Capital to acquire Doncasters Group, a maker of precision-engineered parts for American tanks and military aircraft, for $1.2 billion.

In February congressmen of every stripe turned apoplectic when the government's Committee on Foreign Investment in the US (CFIUS) approved the acquisition by Dubai Ports World of P&O, a British firm that operated several ports in America. The storm abated only after Dubai Ports World, controlled by the government of Dubai, agreed to spin off the American operations to an American-owned firm. But even the shrillest critics of the ports deal, including Senator Charles Schumer, declined to oppose the Doncasters sale. Mr Schumer even praised CFIUS for conducting a “careful, thoughtful” investigation. He argues that the latest deal is very different from Dubai Ports, because “this is a product, not a service, and the opportunity to infiltrate and sabotage is both more difficult and more detectable.”

Perhaps that is a meaningful difference. But Kristin Forbes, an economist at the Massachusetts Institute of Technology and a former member of George Bush's Council of Economic Advisers, reckons that a “number of people in Congress have realised that they over-reacted to the Dubai Port deal.” Although the ports deal was treated in Congress as trading off economic benefit against national security, on closer examination the deal would probably have actually improved security, she says.

Moreover, there has been a growing recognition that, given America's huge external deficit, scaring off foreign sources of capital without good reason was unwise. Also, in the past couple of months the Bush administration has made a big effort to educate Congress about the hitherto little-understood CFIUS reviews, so that politicians are now more comfortable with the committee's advice.

Many foreign would-be buyers of American firms remain sceptical, however, attributing the recent muted reaction in Congress to the fact that the politicians are having more fun slamming the president for failing to control soaring fuel prices. Coming after Congressional concerns over the sale to overseas buyers of Global Crossing, a telecoms firm, and to the would-be purchase of Unocal, an oil company, by the China National Offshore Oil Company, many foreign firms have interpreted the blocking of the Dubai Ports deal as proof of American hostility to foreigners buying its companies.

Phillip Swagel, of the conservative American Enterprise Institute, thinks that such gloom is overdone, however. Those three Congressional outbursts were each special cases, not a trend, he says. As long as foreign buyers work closely with Congress, and sell the deal effectively, future

forays will get the go-ahead, he says—although he thinks Chinese buyers might do well to make any acquisitions in partnership with a British or Dutch firm, whose presence might reassure Congress. “Hopefully, the latest Dubai deal will demonstrate that Congress isn't going to shoot down every foreign acquisition,” he says. Well, maybe. But wait till the next big firm from, say, Dubai or China comes a-calling with a fistful of dollars.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Daddy cool

May 4th 2006
From The Economist print edition

Getty Images

Behind the scenes, Jimmy Iovine is shaping the music industry

MUSIC company bosses always get a terrible rap. They are usually portrayed as grasping, cynical and lacking in any artistic sensibility. A scene from a recent film about the musician Johnny Cash, “Walk the Line”—in which Cash's fat record-company manager tries to stop him playing what turns out to be a triumphant concert at Folsom Prison—sums up the popular image. But, fortunately for the morale of music business executives, there is also Jimmy Iovine. In contrast to many fellow execs, Mr Iovine has musical talent. And although he works for Universal Music Group, the biggest music firm in the world, which is in turn owned by Vivendi, a French conglomerate, artists regard him as much more than just another “suit”. Rappers have even incorporated Jimmy Iovine approvingly into their lyrics. Mr Iovine has street credibility. And—ironically enough—that may be the key to his success as a businessman.

The majors, as the big labels are known, used to have talent-spotting music men at their head, but now a television producer and a journalist head the second-biggest, Sony BMG; a group of private-equity firms own a big chunk of Warner Music Group; and EMI's chairman used to run a biscuit company. Mr Iovine, on the other hand, the son of a dockhand from Brooklyn, started out as a sound engineer. “He has a pedigree that's unique in the music industry these days,” says Tom Freston, chief executive of Viacom, a rival media company. And that pedigree enabled him to create the record label Interscope, which even in its more corporate incarnation as Interscope Geffen A&M Records has consistently been on the cusp of some of the most profitable trends in American music.

Mr Iovine, who always wears a baseball cap and never dons a suit, got his first break from John Lennon, and worked with him during his solo career. He also worked with Bruce Springsteen, Tom Petty, Patti Smith, U2 and others. He did well as a producer, though some in the music business gripe that he worked on great artists' lesser albums. In 1990 he co-founded Interscope Records with Ted Field, the heir to a retail fortune, in a joint venture with Warner Music. Interscope tried not to rely on radio to launch artists; instead it used Hollywood techniques, such as expensive videos and billboard advertisements.

Interscope also dared to get into west coast gangsta rap at the beginning in the early 1990s. Mainstream radio and MTV were frightened of rappers like Dr Dre, Snoop Dogg and Tupac Shakur (who was shot dead in Las Vegas in 1996), as well as edgy white artists like Marilyn Manson—so Interscope's willingness to bypass the traditional marketing system came in handy. Politicians and public opinion made life difficult for Warner Music because of the rap artists' frequently violent and sexist lyrics, but Mr Iovine reportedly refused to allow Warner to vet its albums. As a result, Warner sold its half-share of the label and through subsequent deals Interscope ended up as part of Universal Music. Since Interscope's early days, rap has gone completely mainstream, and thanks to such artists as Eminem and 50 Cent (as well as music from other genres) the label now dominates the American charts. Universal Music has 32% of the American recorded-music market, 26% worldwide, and its share is growing.

That Mr Iovine has had successful careers in white rock and black music makes him unusual. But he also has an astute feel for business, as well as musical trends. Since 2000 Mr Iovine has been warning the music business that it has to embrace the internet. Most recently he weighed into a fight between Apple Computer and the majors in which the other three wanted to bring in variable pricing on Apple's music store, iTunes. Mr Iovine sided with Steve Jobs, chief executive of Apple, arguing that the digital-music market was too young to risk alienating people with higher prices. This week, Apple declared victory. When Mr Jobs was developing iTunes, Mr Iovine helped persuade the other labels to sell him their music alongside that of Universal Music. Mr Jobs calls him “the future” of the music industry.

Having “ears”, and being on the side of artists is all very well, but what about profits? In 2005 Universal Music contributed 13% of Vivendi's total operating profits, and increased earnings by 20% from a year earlier, despite a 3% fall in the market for recorded music. It had a 10% profit margin, similar to the other majors. Vivendi does not release numbers by label, so it is impossible to see from public records how profitable Mr Iovine's bits of the business are. He has a reputation for giving artists more money than other record labels, and for making lots of 50/50 joint-venture agreements with musicians' own labels—so his artists tend to have more of a stake in their success than other labels' artists do. Mr Iovine is a big gambler, says a rival executive. So far, though, his hits seem to have outweighed the misses and the instances of overspending.

The Iovine brand

Mr Iovine's latest idea for Universal Music is to earn money from sources beyond recorded music. In his vision, Interscope's artists can become multi-media entertainment brands; 50 Cent, for instance, starred in a film last year, “Get Rich or Die Tryin'”, made under Mr Iovine's film-production deal with Paramount, Viacom's film studio, and the rapper has also appeared in a videogame. Universal Music takes a cut. The most recent example is the Pussycat Dolls, a new group; Universal Music has a deal with Hasbro, a toymaker, to sell dolls of the singers, and there's also Pussycat Dolls make-up and a Las Vegas nightclub.

So far Mr Iovine has always kept a low profile and played down his skills as a businessman. Doug Morris, Universal Music's chairman and chief executive, is the firm's public face. But Mr Morris is in his mid-60s, and Mr Iovine could eventually succeed him. If so, he might have to acknowledge something distinctly uncool—that he is an extremely shrewd businessman.

Outsourcing to China

Watch out, India

May 4th 2006 | XIAN
From The Economist print edition

China is way behind India in the business of outsourced services, but it has now started to catch up

Imaginechina

IN A vast curtained room in Xian in western China, rows of dark, pony-tailed heads are silently bowed, fingers moving quickly and expertly. They might be in any Chinese factory—except that they are not assembling shoes, nor soldering circuit boards, but sitting at computer terminals processing medical-claim forms from New York and car-loan applications from Detroit and marking examinations for high-school students in Melbourne, Australia. “This is the future of the global back office,” says Michael Liu. Mr Lui, founder of CompuPacific International, one of China's few indigenous business-process outsourcing (BPO) firms, returned after a decade in health-care IT in America, determined to prove that China can do just as well as India in outsourced services.

It is fitting that this future should be emerging in Xian, an old imperial capital that was the final stop for caravans travelling east along the Silk Road from central Asia and the entry-point for new cultural and scientific ideas. Though tourists know Xian for its army of terracotta warriors, the capital of Shaanxi province is quietly becoming one of China's most modern cities. Xian is the birthplace of the nation's space programme, its aircraft-construction hub and home to one of China's biggest technology parks—a 35-square-kilometre Chinese Silicon Valley housing 7,500 companies and supported by more than 100 universities that churn out 120,000 graduates a year, half in computer sciences alone. And that is just the start. The Xian High-Tech Industries Development Zone will eventually span 90 square kilometres at a cost of 100 billion yuan ($12 billion), says Jing Junhai, its director.

The sheer size of this undertaking betrays China's ambition to become a global power in software

and services to match its pre-eminence in manufacturing. Attracting outsourced business is central to this. The worldwide market for offshore spending on IT services for (predominantly) Western companies will reach $50 billion by 2007, according to Gartner, a consultancy, and is growing in double digits. The market for BPO, which encompasses processing bills and credit-card applications to managing entire human-resources operations, should be worth another $24 billion by next year, and is expanding even faster.

India has captured the bulk of this work. While China is the world's top location for contracting out manufacturing, it has just $2 billion of the outsourced-services market, reckons Bill Lewis, the founder of Temasys, a Singapore-based consultancy. What activity there is happens mostly in Dalian, a north-eastern city where, for reasons of history and geography, many locals speak Japanese and Korean, and which therefore handles back-office functions for companies from Japan and South Korea. Xian's annual outsourcing revenues are a tiny 300m yuan ($40m), according to official figures. Over 90% of that comes from Japan.

But China has plenty of potential. Its workers are well educated in basic computing and mathematics. They may lack creativity, but they are disciplined and readily trained, making them better at tedious jobs than most Indians are. This suits the BPO business. “These are repetitive, rules-based tasks which you can train an army of people to do,” says Sujay Chohan, Gartner's research director. “They are not tasks that require innovation.”

Army is the right word: this business needs millions of low-cost workers, and China has them. India used to be cheaper, but salaries for graduates, engineers and programmers have been climbing fast and staff turnover at IT companies can reach 30-40% a year. China, where an entry-level BPO staffer is paid around $300 a month, one-tenth of the comparable American wage, is now very competitive. Henning Kagermann, chief executive of SAP, one of the world's biggest software companies, gave warning in January that India was becoming too expensive to outsource work there. China's big coastal cities are getting more expensive, but prices inland remain keen. Foreign firms are looking beyond Xian at cities such as Chengdu and Wuhan. Kaoru Miyata, head of NEC Xian, says both rental and salary costs in Xian are 40-50% lower than in Beijing and Shanghai, while Yasuo Noshiro, head of Fujitsu Xian system engineering, says the city is cheaper than fast-growing Dalian; and staff, with fewer opportunities to job hop, are more loyal.

Throw in China's superior infrastructure, tax breaks (though India's are also generous) and strong support from the state, plus the desire of multinational companies to spread risk away from India, and it is clear why many large companies are turning to China. IBM, Hewlett-Packard, Microsoft, Siemens and Infineon have been in China for several years and all are busily adding staff. Japan's consumer-electronics giant, NEC, has 180 people doing research and development in Xian and rival Fujitsu has 120 writing software.

The latest lot of companies to discover China, is, revealingly, the very Indian firms that make their money from outsourcing services. Tata Consultancy Services (TCS), the biggest, has a campus in Hangzhou. Infosys and Wipro are in Shanghai and Beijing and plan to increase their workforces from a few hundred to 5,000-6,000 each over the next few years. Genpact, the former offshore BPO arm of General Electric, also based in India, intends to triple its staff in Dalian from 1,800 to more than 5,000.

This expansion is being driven by burgeoning demand from overseas clients who want lower costs, a better spread of risk and local support for their growing Chinese operations. There is also a trickle of business from domestic Chinese companies. TCS is designing and installing a new software system for Huaxia Bank, China's 12th-largest. With every Chinese state-owned company hungry for basic IT and back-office support, that trickle could turn into a flood. James Amachi who runs the Xian office of GrapeCity, a Japanese IT outsourcing firm, says the domestic market is taking off sooner than he expected it to: “We thought it would be two or three years before we

saw Chinese clients, but we are already working on a big domestic telecom project.”

Yet China is still five to ten years behind India, say most observers. It has two big disadvantages. First, although many Chinese can read English, they speak and write it badly. That's a problem in services that require frequent communication with overseas offices. Infineon employs two full-time English teachers in its Xian outpost. Michael Tiefenbacher, the managing director there, says: “It looks bad if our people cannot talk to their counterparts elsewhere. People confuse language competence with technical ability.”

Theoretically yes, in practice no

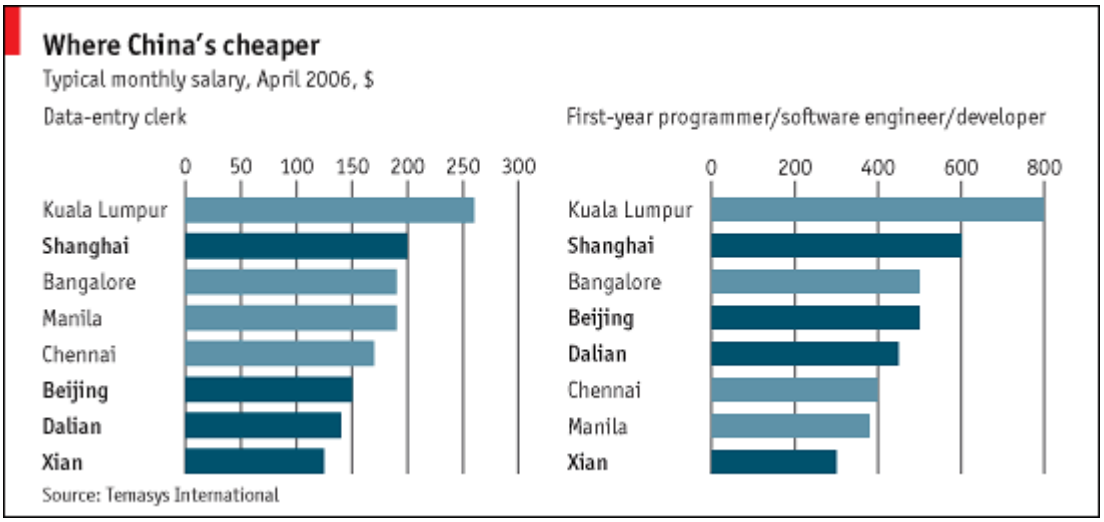
What's more, few Chinese engineering and computer graduates are as good as their qualifications suggest. While they often have a more solid grasp of theory than their European counterparts, few leave university able to apply it to real-life problems, such as developing software. “It is as if they can describe a hacksaw and how it works perfectly,” says Mr Amachi, “but have no idea how to build a door with it.” On a recent hunt for software developers, GrapeCity received 1,200 applications from Xian's six best technical universities. Only seven of them were suitable.

One reason is a lack of vocational training and few links between business and academia. In Europe and India, by contrast, engineering degrees demand work experience. And university teachers educated in a rigid, theory-based system are not able to prepare students for the real world. Wang Yingluo, a professor at Xian Jiaotong University and a member of the Chinese academy of engineering, says “a lot of us are not from industry and have no experience of the commercial world.”

As a result, foreign companies in China are spending a small fortune “subsidising China's education system”, as one puts it. Fujitsu's Mr Noshiro has put some 40 Chinese workers through intensive training in Japan, at a cost of $30,000 a year each. “They need two years of full-time training just to become a middle-level engineer and four years to get to be a project manager.” Mr Amachi says even after three years of training “only 10-20% of programmers ever get to a really good level and can become an architect. China has so many colleges and so many graduates, but the degrees are not as good as they sound.”

The same can be true for China's infrastructure. GrapeCity found its building and its computers flooded when it rained heavily the day after it moved into its new home in the Xian office park.

The fragmentation of China's domestic outsourced-services sector does not help. Most companies have fewer than 1,000 staff. CompuPacific has under 600 employees, compared with 60,000 at India's TCS. Though small-scale mergers will happen—CompuPacific has been approached by a local rival, a venture capitalist, and an American outsourcer looking to diversify out of India—local politicians hinder consolidation, sometimes blocking mergers with firms outside their regions if they risk losing influence. India, by contrast, has a national trade body, Nasscom, which can encourage developments such as consolidation that look likely to help the industry.



Meanwhile fears about piracy of intellectual property—more rampant in China than India—will constrain growth. Though foreign companies in China say that copying sophisticated IT processes is difficult and can be thwarted by relatively simple safeguards, the perception that sensitive business information is at risk is likely to slow development.

All this suggests that, for the moment, China is likely to capture an increasing share of low-level BPO tasks, such as data entry, form processing and software testing, while India continues to dominate higher-value functions, such as research and design, which require greater creativity and language skills. However, this will change as more western firms demand support in China and domestic opportunities grow. And it isn't just pure competition between the two countries: last year, TCS signed a deal with the Chinese government and Microsoft to build China's first big software company, which aims to provide IT services for the Olympics.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS
PRINTABLE PAGE VIEW SPONSORED BY

German savings banks

Strife at the Sparkasse

May 4th 2006 | BERLIN AND FRANKFURT
From The Economist print edition

What the battle over Berlin's savings bank might signify for the structure of Germany's banking industry

A FIERCE fight is under way in Berlin over the future of Germany's banking system. In one corner, scrapping in defence of public ownership, is the DSGV, the country's savings-banks association, seconded by BaFin, the financial regulator, and Peer Steinbrück, the federal finance minister. In the other are private-sector banks, determined to see the ownership of savings banks opened to all comers. They are backed by Thilo Sarrazin, finance minister of the *Land* (state) of Berlin, and (they hope) the European Commission.

Savings banks, or *Sparkassen*, account for about half of all German savings deposits (see chart below). With 11 *Landesbanken*, which provide them with wholesale services, they make up one of the German banking industry's three pillars. The private sector and mutuals make up the other two. Until last July the public banks had a state guarantee, allowing them to borrow and lend more cheaply than their competitors. Many of them are still implicitly guaranteed by their municipal owners. The three-pillar system has obstructed consolidation in an overbanked country and has stifled competition. Some *Landesbanken* and *Sparkassen* have merged and even taken over private banks. But takeovers in the other direction are not possible: the savings banks are protected by local laws. Berlin may provide the first exception.

The prize in this particular battle is the Berliner Sparkasse, which has over 40% of the capital city's retail market. The savings bank is owned by Landesbank Berlin. This in turn belongs to Bankgesellschaft Berlin, a group that was hit by a property scandal in 2001. Its majority owner, the *Land* of Berlin, had to bail it out to the tune of €1.8 billion ($2.3 billion) and provide further

guarantees of more than ten times that amount. The European Commission approved this state aid on condition that Bankgesellschaft Berlin be sold after the clean-up.

A first round of bidding for Berliner Bank, another smaller subsidiary of Landesbank Berlin, closed on April 30th. Under the agreement with the commission, Berliner Bank must be sold by the end of October, and the rest of the group, including the savings bank, must go to a different buyer by the end of 2007. Both sales must be “free of discrimination”.

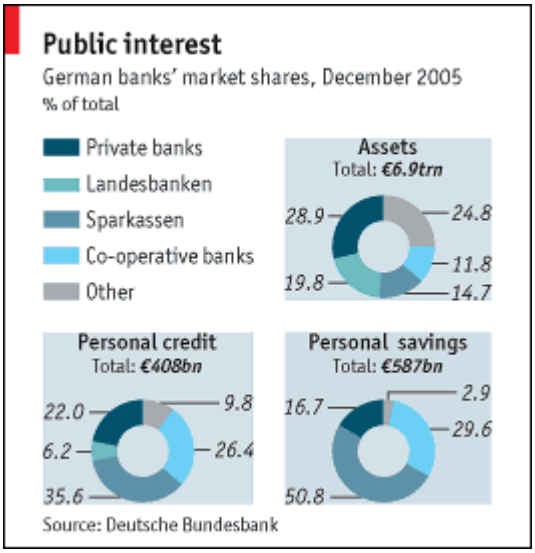
But the question of who buys the Berliner Sparkasse has taken on a significance far beyond the sale of a local bank. The DSGV insists that only publicly owned banks may operate under the *Sparkasse* brand, which has a red “S” logo that is seen on every German high street. The association also argues that private operation of a bank calling itself a *Sparkasse* would infringe paragraph 40 of the federal banking law, which reserves the name for publicly owned regional institutions run for the “common good”.

Not surprisingly, the private-sector banks object to this. First, how can a sale be anything other than discriminatory if private bidders may not use the name “Berliner Sparkasse”, but public bidders may? Second, the construction of the Bankgesellschaft group, which listed its shares in 1994, means that some of the savings bank's profits have already gone into shareholders' pockets rather than to serve the “common good”. Third, last year Berlin's state parliament changed its local savings-bank law precisely to allow its *Sparkasse* to be operated by a private owner.

The savings banks accept none of this. And they have some powerful friends. Last June BaFin wrote to Mr Sarrazin, warning him that a private buyer could not operate a *Sparkasse* under federal law. Late last month Mr Steinbrück also insisted, in a letter to a member of the federal parliament, on the sanctity of the red S.

The Berliners and the private sector are not backing down. Mr Sarrazin says that the *Sparkassen* are governed by regional, not federal, law. Landesbank Berlin has filed a suit with the regional court, contesting the DSGV's claim that only a public owner may run a *Sparkasse*. And the European Commission has been considering whether to take action against the German federal government for reneging on the terms of the Bankgesellschaft sale. But talks continue, and it is not certain that the commission will side with the private-sector banks. The German finance ministry is interested in protecting the integrity of the *Sparkasse* brand, not in preventing the sale of a *Sparkasse*, a spokesman says.

The private banks might also point to Austria if they want to put another hole in the DSGV's argument. The biggest savings bank there, Erste Bank, has opened itself to private capital, floating 64.5% of its shares; its own foundation retains a blocking 30.5%. However, majority private ownership has not excluded it from using the *Sparkasse* brand in agreement with the German group. Erste may use the red S, but not in Germany. This undermines a nonsense of the DSGV's and BaFin's contention that only a publicly owned bank is fit to use the brand.



The savings banks are working on a joint bid for Bankgesellschaft Berlin and its subsidiaries. But collective ownership of the Berliner Sparkasse would pose a new set of problems. Who would run the bank? How free would it be to compete with other local savings banks, such as the Mittelbrandenburgische Sparkasse (MBS) in neighbouring

Potsdam—especially if MBS bought Berliner Bank (it is one of the bidders)? And the Berliner Sparkasse would need to grow to justify the resources spent on the bid. But that would offend the regional principle which supposedly confines every *Sparkasse* to its local market.

In fact, the regional principle is already being severely tested. Several *Landesbanken* have private-banking subsidiaries or affiliates that seek clients across the country. The city of Brunswick is planning to start its own savings bank to compete with NORD/LB, the local *Landesbank*. Internet banks operated by the Bayerische Landesbank and the Frankfurter Sparkasse are hoovering up customers all over Germany. Proposals that the savings banks combine to start a commonly owned online bank have so far got nowhere. By contrast, the Austrian savings banks, led by Erste, have managed to set up such an institution, called netbanking.

Another possible public-sector bidder for Bankgesellschaft Berlin is WestLB, the third-biggest *Landesbank*. Last year WestLB bought Weberbank, another Bankgesellschaft subsidiary. But WestLB is owned by two regional savings-banks associations, which might balk at its buying its own *Sparkasse*.

Bidding for Berliner Bank, valued at around €400m, is seen by many as a dress rehearsal for the sale of Bankgesellschaft Berlin next year. The bidders include banks known to be interested in expanding their retail businesses in Germany, such as Deutsche Bank, Commerzbank, HVB (which is owned by UniCredit of Italy), Citigroup, France's Société Générale, MBS and the Berliner Volksbank, a co-operative. Berliner Bank has 60 branches and around 300,000 of the capital's better-off citizens, about 9% of the market.

The Berliner Sparkasse, on the other hand, has around 2m retail customers, a share of about 43%. A buyer would gain a dominant position in Berlin but not much in the rest of Germany. Bankgesellschaft Berlin, which includes a small investment bank and Landesbank Berlin as well as the savings bank, might fetch between €3 billion and €4 billion, if the *Sparkasse* name can be used. Without the red S it would be worth much less.

Naturally, Mr Sarrazin wants to maximise the proceeds. The state has debts of around €60 billion in debts, and the guarantees on Bankgesellschaft Berlin's disastrous property funds may cost it another €5 billion-7 billion over the next two decades. Despite hopes that the federal government will help out—the Constitutional Court started deliberations on this recently—Mr Sarrazin must show that he has made every effort to save money. Hence his keenness to make the Berliner Sparkasse as attractive as possible to private buyers. The Social Democrat politician, battling against the ire of the savings banks, the regulator and a federal finance minister from his own party, explains: “When you're hiking at 1,800 metres in a blizzard you can't just wish you were somewhere else.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Austrian banks

Oh, brother!

May 4th 2006 | VIENNA
From The Economist print edition

Fellow banks bail out BAWAG to end a mismanagement saga, they hope

BANK runs are rare in rich countries, but they still happen. This week Austrian financial institutions and the government stepped in with a €1.35 billion ($1.7 billion) package to stem a run on deposits at BAWAG, the country's fourth-biggest bank, which is owned by the ÖGB, the trade-union federation.

BAWAG was caught last October when it gave a €350m top-up loan to Refco, an American futures broker, hours before it went bust. When BAWAG tried to get its money back, other angry creditors filed a counterclaim for $1.3 billion, alleging that bank officials had been complicit in the fraud surrounding Refco's downfall. On April 25th an American judge initially froze BAWAG's American assets but then decided that the bank could post a $1.1 billion surety. The bank then agreed to pay $675m in a settlement with Refco's creditors.

AP

Everything's under control, says Schüssel

Then came the run on BAWAG's deposits. The government put up a guarantee of €900m and the banks and two insurers injected €450m of capital into the wounded bank.

The episode provides more evidence that trade-union federations and big business are a dangerous cocktail. The ÖGB had already had trouble in the 1990s with Konsum, a retail chain. In Germany the BGAG, the unions' investment vehicle, has also had its share of woe. Late last year, it rid itself of a troubled mortgage bank, AHBR.

The ÖGB has pledged to sell BAWAG as soon as possible. Refco is not the only recent blot on its copybook. In the late 1980s BAWAG's then chief executive, Walter Flöttl, began to invest the bank's money in an American derivatives business run by his son, Wolfgang. After Mr Flöttl senior retired, his successor, Helmut Elsner, revived the business but ran up undeclared losses of around €1 billion. A cover-up via Caribbean subsidiaries, successful until only a few weeks ago, was provided by the ÖGB, which used its strike funds to plug the gap. Mr Elsner and Mr Flöttl junior are under investigation.

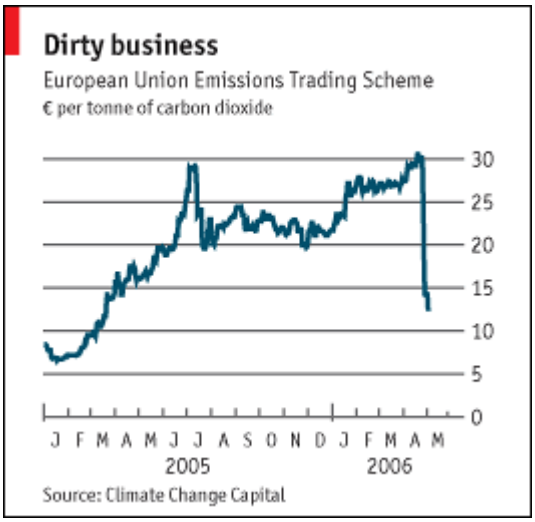
The Austrian government will hope that its guarantee will not have to be called on, and that its mere involvement will be enough to repair confidence in BAWAG. Ministers are doing their bit, personally: Wolfgang Schüssel, the chancellor, and other members of the cabinet conspicuously opened accounts in the troubled bank on May 2nd.

Carbon trading

Cleaning up

May 4th 2006
From The Economist print edition

Power companies and shorting traders have done better than the environment



MARKETS are naturally volatile; but when they are new, thin and involve governments, they are especially capricious. So it is with the market for carbon-emission permits created by the establishment of the European Union Emissions Trading Scheme (ETS) in January 2005. The price of permits, which had tripled since the scheme's launch, dropped by more than half in the last week of April.

The ETS is designed to cut greenhouse-gas emissions so that European countries meet the targets set for them by the Kyoto climate-change agreement. Some 13,000 factories and power stations in five different industries may emit carbon only if they have a permit. At the start of the scheme, they were given permits worth around 2.2 billion tonnes of carbon dioxide per year. Those permits may be used up as fuel is burned and carbon generated, or they may be traded. Around €10 billion-worth ($12.4 billion-worth) of permits were traded last year. This year the figure will probably be three times that.

When the scheme was originally established, politicians expected the permit price to hover around €10 a tonne. Instead, it rose to a peak of €30. “The gas-coal spread is mostly responsible,” explains Anthony White of Climate Change Capital, a specialist investment bank. The power-generation business dominates the carbon market, because it emits so much pollution. In Europe, gas and coal are the main fuels used. When the gas price rises, power companies tend to switch to coal. Coal is dirtier than gas; so, as power companies switch to coal, they need more permits, and the price rises.

Then, in late April, several countries, including France and Spain, announced how much carbon they had emitted last year. The numbers were surprisingly small. Suddenly, the future demand for permits looked lower than expected—and the price crashed. Unfortunately, the numbers reflect not the scheme's success in cutting pollution, but industry's success in getting itself allocated more permits than actual emissions warranted when the scheme was launched. Dieter Helm, an energy economist at Oxford University, questions the way the information was sprung on the market, and the degree of competition (or lack of it) in the market. “It ought to be investigated,” he says.

So far, the ETS has done more for power-generating companies than it has for curbing pollution. Because carbon permits were handed out free, rather than auctioned (as most economists said they should be); and because the carbon price has been unexpectedly high, permit-holders found

they were sitting on unexpectedly valuable property rights. IPA Energy Consulting, in a report for the British government on the scheme, says it reckons that the British power-generation sector has profited to the tune of £800m ($1.5 billion) a year.

Meanwhile, there's no sign that the permit regime has brought about a switch to cleaner fuel—indeed, the reverse has been happening. That's not just because gas has been so much more expensive than coal, but also because the first phase of the ETS lasts only three years. Beyond that, nobody has any idea how many permits will be issued, and therefore what the price might be. And since investments to reduce emissions have pay-back periods of five or more years, nobody is going to start investing on a three-year view.

The ETS's troubles do not mean markets are no use in curbing emissions—but they do mean that markets need to be part of a scheme that has been well designed. The ETS hasn't.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Asian stockmarkets

Mercury rising

May 4th 2006 | HONG KONG
From The Economist print edition

Share prices in Asia are going from hot to overheated

FROM Tokyo to Mumbai and Seoul to Manila, investors are basking in financial sunshine. Even in Shanghai, the sky is blue for a change. On May 3rd Asian stocks, as measured by the Morgan Stanley Capital International Asia-Pacific Index, rose to their highest levels in 17 years. This broad measure of Asian equities has jumped by 131% in the past three years, outpacing American and European markets, and has managed 14% so far in 2006, trailing Europe but well ahead of America.

In essence, Asian stocks are a play on today's healthy global economic growth, of which the dynamism of China and India are the most obvious examples. They have also benefited from low worldwide interest rates, which allow international investors to borrow at home for investment in riskier but potentially higher-yielding assets abroad. Such trades have reached vast proportions: in the first four months of the year, $17 billion in foreign money was invested in Asia, according to Citigroup, ten times more than in the same period last year. Markus Rösgen, the bank's regional equity strategist, says that sentiment indicators are “in euphoric territory”—and that investors are hungry to take on more risk. Given their abundant liquidity, large, Western fund managers have driven eastern stocks back to heights not seen for years (although the Japanese market is still far below the peak it scaled in the late 1980s).

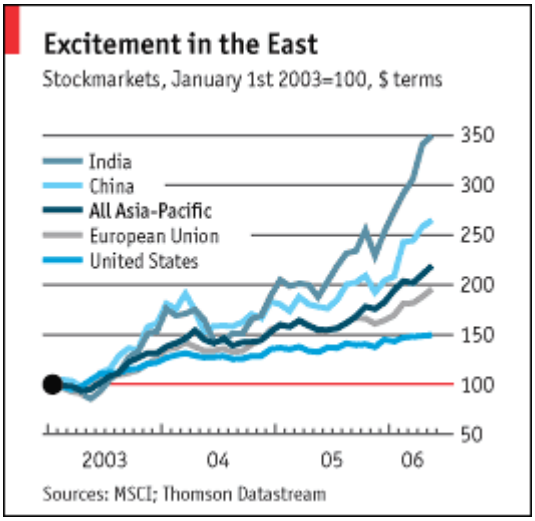
AP

A happy day in Hong Kong

Such portfolio investors are notoriously fickle, however, and the climate is already changing. Global interest rates are on the rise: they may have further to go in America, surely do in the euro zone and look set to go up in Japan. This makes it less easy to borrow cheaply and invest for yield. Coupled with high oil and commodity prices, it will also eventually take the edge off economic growth. Already, Asian export prices are falling—the 2.8% decline in March was the sharpest for 12 months—and further weakness in the dollar may force the region's exporters to trim their profit margins. And even if Asia's economies continue to grow faster than, say, Europe's, Asian equities will suffer disproportionately should risk appetites fall and western institutions pull back their money.

The link between macroeconomic growth and stockmarket performance in Asia is more tenuous than in the West, because many more top firms are still in state or private control. As a result, the profit growth of listed companies has often disappointed. After rising 1.5% last year, earnings growth in Asia (excluding Japan) is expected to

hit 9.4% this year, reckons IBES, an aggregator of analysts' estimates. Yet this is lower than the 11.5% that was forecast at the start of 2006—a sign that rising input costs (especially for oil and commodities) and falling export prices are biting. Granted, Asian companies are now paying more generous dividends: payout rates in Asia, once the world's lowest, are now beaten only by Europe. And the pace of merger activity, which usually underpins share prices, has picked up around the region.



Generous valuations, however, already take that into account. Mr Rösgen puts the forward price/earnings ratio for Asia at 12.5; analysts at Merrill Lynch reckon it is 14.5, only just below America's 15, despite Asia's greater volatility and poorer corporate governance. By trusting to momentum and ignoring valuations, investors have been able to make plenty of money in Asia over the past three years. But when stocks are this hot, someone eventually gets burned.

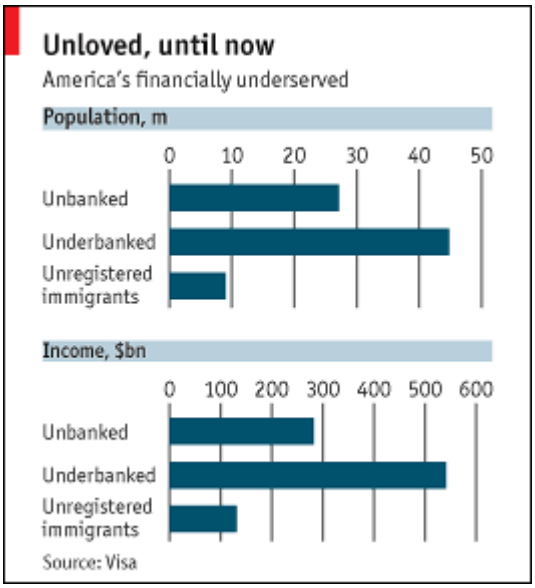
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Americans without bank accounts

Into the fold

May 4th 2006 | NEW YORK
From The Economist print edition

Banks in America are seeking out people they once shunned



FOR most of us, banking is a regrettable necessity. For many others, it is an unaffordable luxury. In America at least 12m households have no bank account—are "unbanked", in the industry's ugly jargon. Once unnaturalised immigrants and the "underbanked"—an even uglier term for those with a low credit score or none—are added, some estimates exceed 40m. For years, banks did not look on these people as potential customers at all. No surprise there: banks see little profit in the poor and the poorly educated.

But this is changing. Last month Citibank announced a partnership with 7-Eleven, a large convenience-store chain, to put its brand on more than 5,500 in-store cash machines, some of which are self-service kiosks, for wire transfers, cheque cashing and bill payment. This takes Citibank into areas where it has no branches, but it also allows the behemoth to serve those without bank accounts. Meanwhile, JPMorgan Chase is targeting the unbanked through its new "direct-benefit card", which lets people without bank accounts receive government tax credits electronically on federally insured debit cards, rather than by cheque.

All of this is good news for the unbanked, who often use expensive "alternative financial providers" to pay bills, cash cheques and borrow. For instance, payday lenders, which provide short-term (usually two-week) loans, often charge interest rates that top 470% when annualised—no small sum when you are living from one pay cheque to the next. Worse, those without bank accounts find it hard to save, build credit histories and obtain loans at reasonable rates. A study published this week by the Federal Reserve Bank of Chicago and the Brookings Institution reports that cities with higher shares of "banked" residents tend to have higher rates of income, employment and homeownership, and lower crime rates.

The Community Reinvestment Act (CRA) of 1977 was meant to bring financial services to the poor by requiring banks to meet their "credit needs" in the areas they serve. Banks are regularly examined on their lending practices, their investment in community development and the provision of banking services in low-income areas. But community activists complain that the banking-services criteria are too soft. For example, banks win CRA points for putting branches in a poor neighbourhood, which might encourage those without accounts to open them, but also for placing employees on the boards of groups promoting affordable housing, which is unlikely to.

Perhaps the CRA is beside the point. Jennifer Tescher, of the Centre for Financial Services

Innovation, a non-profit group, says: “For banks to rise to the challenge, they must see the unbanked as a sustainable business—not just community development.” In other words, if banks are to go after the unbanked, they will have to see profit in it.

Surprisingly, they might. Visa, a credit-card organisation, reckons that the unbanked, underbanked and unregistered immigrants receive almost $1 trillion a year from employers, government, insurers and so forth. This money flows through those alternative providers. Moving some of it into the banking system—for a fee—could mean substantial profits, as well as saving the unbanked the exorbitant interest rates and other charges they must often pay. Elizabeth Rowe of Guideline, a research firm in New York, believes that banks which absorbed the business of the alternative financial sector would bring in $9 billion before any cross-selling of other products. “The unbanked are an upwardly mobile population,” she says.

First, catch your customer

Optimistic? Perhaps. But not so long ago banks steered clear of remittances and lending to those with poor credit histories. Today big banks, hungry for new growth areas, are clamouring to offer wire-transfer services to immigrants. And sub-prime mortgages have boomed.

Admittedly, finding the right way of serving poorer customers is hard. Some banks try to woo the unbanked by offering free remittances or cheap cheque-cashing if they open a free cheque-book account. But to make money this way, banks rely on penalty fees, such as those for letting a balance slip below the minimum or bouncing cheques, which tend to scare would-be customers away. A few community banks, such as Mitchell Bank in Wisconsin, are trying to catch them young by putting branches in high schools in areas where there are large numbers of immigrants without accounts.

One bank that seems to be getting it right is El Banco de Nuestra Comunidad, established in 2001, which aims at unbanked Hispanic immigrants in Georgia. It eschews free cheques: “Like giving them a loaded gun,” says Drew Edwards, the chief executive. Instead, the bank prides itself on knowing its customers intimately—and knowing what they will pay for.

Take El Banco's 12 “storefronts”. Instead of offices and bullet-proof glass, there are televisions, piles of toys, free internet access and a staff of immigrants (not, says Mr Edwards pointedly, “bilingual staff”). El Banco targets cheque-cashers by undercutting them in price, then offers its customers simple accounts tailored to immigrants' needs, for a fee: immediate access to cash (rather than the typical five-day wait for cheques to clear), unlimited cheque-cashing and no risk of bounced cheques—because they have no cheque books. El Banco says it averages $40 a month per customer in fees, before loans and anything it gets from cross-selling mortgages and insurance. It has moved half its 20,000 customers to cheque-book accounts and has plans to expand beyond Georgia. Admiring banks in North Carolina and Tennessee have adopted its platform and strategy.

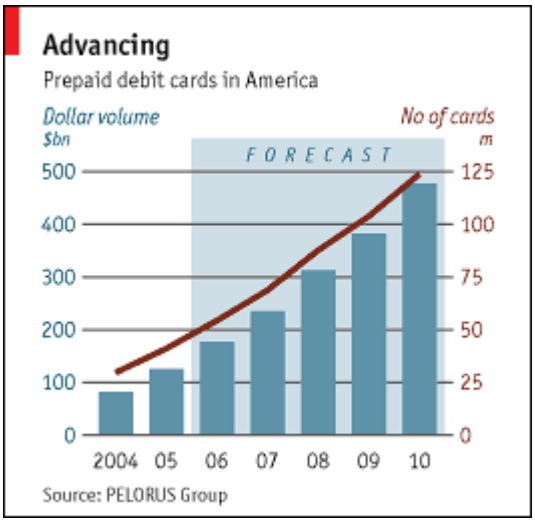
Other new models are emerging, from non-bank financial institutions and retailers that are often nimbler and more lightly regulated than traditional banks. Prepaid cards that allow customers to deposit money onto them, like Chase's direct-benefit card, are booming (see article). 7-Eleven's kiosks require little labour and bring more people into its stores. Wal-Mart, the retail giant that is applying for a limited banking licence, already cashes millions of cheques every month, along with offering wire transfers and other services. Perhaps America's unbanked don't need banks after all.

Prepaid cards

Plastic promise

May 4th 2006 | NEW YORK
From The Economist print edition

Stored-value cards take off



FOR the millions of Americans without bank accounts, prepaid cards—also called stored-value cards—could be the next-best thing. Prepaid cards can be loaded with money and used as a debit card, but without a bank account. While credit-card growth has stagnated in recent years, the prepaid market is booming. The PELORUS Group, a research firm, reckons that the dollar volume of prepaid cards, $126 billion last year, will top $470 billion by 2010 (see chart).

Prepaid cards are of two types. Single-use cards, such as telephone cards or Gap gift cards, can be used only with the issuer. More relevant for the unbanked are multi-purpose cards, which can be used almost anywhere that accepts a credit card. These increasingly offer the services that used to come only with a bank account. They can be used to store electronic deposits from employers or the government, withdraw cash from machines, transfer funds and pay bills.

NetSpend, one of the fastest-growing prepaid-card marketers and processors, has even added a feature that lets customers funnel money into an interest-bearing “savings” account. NetSpend boasts that it distributes its cards in more than 10,000 convenience stores, petrol stations and so forth—a bigger network of “branches” than any bank. And convenience stores are open 24 hours a day and are to be found in even the most impoverished district.

Enthusiasts think all this is just the beginning. They hope that, soon, prepaid cards can contain credit-like features, such as overdraft protection or loan advances on direct-deposited salaries. This could help unbanked customers build credit histories, opening the way to loans and other financial products. Indeed, credit-scoring firms are experimenting with using the records generated by people's prepaid cards.

Others are more sceptical. Many prepaid cards have opaque fee structures that make them pricier than simple bank accounts. Fees can include not just upfront “activation” charges but also levies for reloading funds and monthly “maintenance”. Regulation is still hazy. Some cards do not enjoy the federal deposit insurance that most bank accounts do. Others do not protect cardholders' money if cards are stolen—something of a drawback in rough areas.

Economics focus

The weeds of destruction

May 4th 2006
From The Economist print edition

Central banks need to worry about more than just inflation

THREE months after Ben Bernanke took over as chairman of America's Federal Reserve, financial markets are struggling to decipher his monetary smoke signals. His testimony to Congress on April 27th and some unguarded remarks to a journalist have left markets confused over whether or not the Fed has nearly finished raising interest rates. Some economists argue that the Fed would find its policy easier to explain if it had an explicit inflation target—something Mr Bernanke is known to favour. That might make it easier for financial markets to guess where interest rates are going, but would it necessarily result in better policy?

If candidates in an economics exam are asked: "What should be the main objective of monetary policy?", the "correct" answer today is price stability: central banks should single-mindedly reduce inflation and then keep it low; they should also avoid deflation. In that same exam in ten years' time, however, the required answer may be different. Or so implies a new paper by Bill White, the chief economist at the Bank for International Settlements, which asks: "Is price stability enough?"*

Inflation is indeed a curse on economies. High inflation disrupts steady growth, and by blurring movements in relative prices it leads to a misallocation of resources. However, stable prices do not guarantee stable economies. The bursting of Japan's bubble in the early 1990s and East Asia's economic crisis in 1997-98 were both preceded by periods of low inflation. Furthermore, recent structural changes in the global economy could mean that a low, positive rate of inflation is not always best. Thanks to the re-emergence of China and India and the productivity gains from information technology, the world is enjoying a terrific positive supply shock, which has reduced the prices of many goods. How should central banks respond?

Current received wisdom holds that if a negative supply shock (higher oil prices, say) causes inflation to rise, central banks should tolerate this so long as it does not increase inflationary expectations and lead to second-round effects on other prices. The logic is that central banks should ignore one-off changes in the price of things they cannot control. So, asks Mr White, shouldn't central banks also ignore the fall in inflation arising from a positive supply shock? To be consistent, they should allow inflation to fall below target. Instead, as the prices of traded goods fall, central banks have been propping up inflation by pursuing looser monetary policies.

Mr Bernanke would argue that back in 2003 when the Fed slashed interest rates to 1%, it was trying to prevent deflation. However, not all deflations are like that of the 1930s, a vicious circle of deficient demand, falling prices and rising real debt burdens, which further depressed demand and hence prices. Historically, most deflations have been benign, caused by technological innovation and associated with robust growth. During the rapid globalisation of the late 19th century, falling average prices went hand in hand with strong growth. Today's world has much in common with that period.

Are central banks targeting too high a rate of inflation now that China and India have boosted global capacity so dramatically? With hindsight, some of the deflation that the Fed was fretting about in 2003 was in fact benign deflation due to cheaper goods from China and the IT revolution. But its determination to prevent inflation falling caused it to push interest rates unusually low. This, argues Mr White, could have long-term costs to the extent that persistently easy money leads to too much borrowing, too little saving and unsustainable asset prices.

Most central banks base their policy analysis on models derived from Keynesian economics. In these, holding interest rates too low creates excessive aggregate demand and hence inflation. But Mr White believes that a model based on the Austrian school of economics, at its height between the world wars, may now be more relevant. In Austrian models, the main result of excessively low interest rates is excess credit and an imbalance between saving and investment—rather like the one in America today.

A fresh look at fusty tomes

There are two reasons for dusting off Austrian economics. Financial liberalisation, by allowing bigger increases in credit than in the past, has increased the risk of boom-bust cycles of the Austrian sort. Second, competition from China and faster productivity growth may have changed the inflation process and made traditional indicators a less useful guide to monetary policy.

Defenders of today's monetary-policy method, focused on consumer-price inflation, may say that it seems to have delivered the goods, in the form of more stable growth. So why change? One reason, suggests Mr White, is that if monetary policy is concerned solely with price stability, surges in credit will be restrained only if they trigger inflationary pressures. Ever-bigger financial imbalances could thus build up. Even if inflation remains subdued in the short term, low interest rates could either increase the risk of higher inflation in future or pump up borrowing and asset prices. Should these imbalances eventually correct themselves, there will be a sharp slowdown.

Central banks therefore need to watch a wider range of indicators, including the growth in credit, saving rates and asset prices. They should be prepared to raise interest rates in response to clear evidence of financial imbalance even if this leads them to undershoot their targets for inflation.

The snag is that in contrast to a simple inflation target, such a framework will make policy less transparent and a central bank may find it harder to explain its interest-rate decisions. Central bankers will need especially clear heads: what could be better than a brisk hike in the Austrian Alps?

---

*April 2006: available at www.bis.org/publ/work205.pdf

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Award

May 4th 2006
From The Economist print edition

Our economics editor, Pam Woodall, was joint winner, with Martin Dickson of the *Financial Times*, of the Wincott Foundation award for senior financial journalist of the year. Bill Emmott, who stepped down as editor at the end of March, won a special award. Separately, at the Business Journalist of the Year awards, Bill won the “decade of excellence” prize, Pam was named best economics journalist and Tom Easton, of our New York bureau, was named best finance and markets journalist.

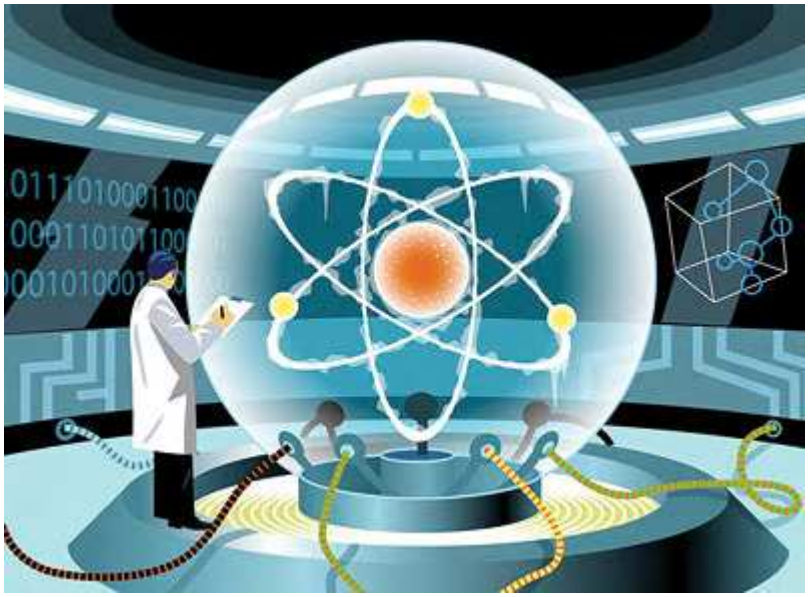
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Quantum computing

One qubit at a time

May 4th 2006
From The Economist print edition

Four ways to build a quantum computer



Get article background

COMPUTING is about to hit a problem. In each new generation the components are smaller than they were in its predecessor, and the speed at which this miniaturisation is happening means that within 15 years or so a fundamental limit will be reached. At that point, not only will the strange effects of quantum mechanics hold sway, the components themselves will be on the scale of atoms and no further size-reduction will be possible. Which is why scientists and engineers are seeking new ways of building computers.

One route they are exploring, which was discussed at a meeting held recently at the Royal Society in London, is called quantum computing. Instead of trying to overcome quantum weirdness, this technique embraces and exploits it. The thing that distinguishes a quantum computer from the sort in use today is the number of calculations it can do in parallel. Both sorts of computer use binary arithmetic, but they do so in rather different ways. A classical computer employs bits—binary digits, either zero or one—to process and store information. But a bit must be one or the other; it cannot be both at the same time. A quantum computer does not suffer from this restriction.

Quantum theory allows subatomic particles to exist in more than one state simultaneously, a phenomenon known as superposition. An electron, for example, has a property called spin that

can be “up” or “down”—or a bizarre combination of the two. Using the spin of an electron to represent a bit of data would allow it to be both up and down (ie, zero and one) at the same time. Instead of being a bit it is, in the jargon, a qubit.

From bits to qubits

Unlike a bit, a qubit can—at least in theory, and if the program can be written in the correct way—be used in more than one calculation at a time. And if you add extra qubits, the process scales geometrically. A quantum computer with two qubits could run four calculations in parallel. A 20-qubit device could run over a million. A 1,000-qubit device could process more simultaneous calculations than there are particles in the observable universe.

It is this geometrical scaling that makes the potential of quantum computing so awesome. Besides disposing of the miniaturisation problem, quantum computing would, its proponents claim, allow the creation of computers that will massively out-perform existing machines. They will be able to do day-to-day calculations much faster and also solve problems that are currently intractable. They may even open up a new class of applications that can now be only guessed at, according to Lov Grover of Lucent Technologies, a researcher in the field.

If, that is, they can be made. So far, only small-scale devices have been demonstrated, and many of these need to be kept in strictly defined conditions.

One reason for this sensitivity is that qubits can maintain their quantum superposition only if they do not interact with other objects. They must thus be isolated from their surroundings. Andrew Briggs, a nanomaterials scientist at Oxford University, is a member of an international collaboration working on this problem. As he told the Royal Society meeting, his team recently managed to cage a nitrogen atom inside a buckyball (a sphere formed from 60 carbon atoms) and use its electrons as a single qubit.

The resulting molecule kept the qubit in a superposition for 500 nanoseconds—longer than any other molecular system studied. Unfortunately, this is still rather a short time (500 billionths of a second, to be precise), and is certainly not long enough to perform a calculation. To encourage the superposition to endure a little longer, the team repeatedly kicked the qubit with a pulse of microwaves, a technique known as “bang bang”. This disrupts any interaction between the qubit and its environment, and keeps the superposition in place a little longer.

So far, so good. And using buckyballs to isolate qubits could prove particularly useful, because atoms of elements other than nitrogen might also be caged this way. That opens up the possibility of finding more suitable materials for use as qubits, and employing properties other than the spin on their electrons to create superposition. The work, nevertheless, remains at the single-qubit scale, many years from commercial use.

A second approach, being taken by a team that includes David Williams, who works at Hitachi's research laboratory in Cambridge, may be closer to usefulness. Dr Williams's team wants to employ existing silicon chips to make quantum computers. These have the advantage of being a proven technology. The idea is to manufacture “quantum dots”—tiny blobs of material that would act as qubits—on their surfaces. The dots would then be manipulated by larger-scale structures to create something resembling a real computer, rather than a laboratory curiosity. Indeed, all the elements for a semiconductor qubit have now been made in the lab, and some elements have even been made to work together. A complete circuit, however, has yet to be demonstrated.

A third way to create a quantum computer uses ions (electrically charged atoms) trapped by oscillating electromagnetic waves as its qubits. Many groups are working on this idea. Last year,

for example, a team of researchers at the University of Michigan built a semiconductor chip that functioned as an ion trap. Such devices are constructed by standard lithographic techniques, which makes them attractive as a way to manufacture real quantum computers.

Condensed thinking

Clinging to tried and trusted methods, though, may not be the right approach. After all, it was not the pre-existing technology of valves that made the original digital computers viable, but a new—and initially temperamental—invention called the transistor. Developing existing technology for use in quantum computers might prove equally mistaken. In this context, a relatively newly discovered form of matter called a Bose-Einstein condensate may point the way ahead.

In a Bose-Einstein condensate, the atoms are so cold that they all fall into their lowest quantum state. That means they are, in quantum terms, identical. And that, in turn, means they act as a single quantum object—ideal for turning into a qubit, if the minor difficulty of keeping them at temperatures close to absolute zero in a functioning machine can be overcome.

Several groups are working on this problem, including a team led by Ed Hinds of Imperial College, London. Dr Hinds makes his condensates by zapping the atoms with specially tuned lasers. This forces them to emit energy and thus shed heat, eventually cooling them into a quantum uniformity that can be trapped by an electromagnetic field.

What happens next is not clear. Dr Hinds has not yet worked out how to talk to his newly created qubit. Nor are Bose-Einstein condensates necessarily the next transistors. But quantum computing does now seem to be acquiring a momentum of its own. Give it 15 years, and who knows what will result.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Health in America and Britain

Transatlantic rivals

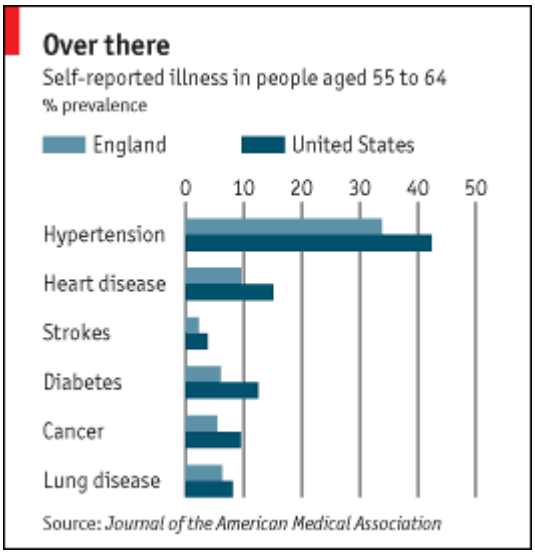
May 4th 2006
From The Economist print edition

Middle-aged Americans are puzzlingly sicker than their English counterparts

AMERICA'S medical system has long seemed a poor bargain. Americans spend far more on health care than the inhabitants of other rich countries, but their life expectancy is below the wealthy world's average. Annual medical costs, measured by the Organisation for Economic Co-operation and Development using purchasing-power parities, which take account of price differences, amount to $5,635 per person in America compared with $2,231 in Britain. Yet an American's life expectancy at birth is 77.2 years compared with 78.5 for a Brit.

Life expectancy, though, is a crude and indirect measure of health. For example, two factors contributing to America's poor showing have nothing to do with the victim's health. These are a high rate of road-accident mortality, and the highest homicide rate in the rich world. To overcome this deficiency, a study just published in the *Journal of the American Medical Association* by Michael Marmot, of University College, London, and his colleagues uses direct measures to compare the health of middle-aged Americans and Britons—and the results still favour the Limeys.

Strictly, the comparison was between Americans and the English. Scots, with their notoriously high rates of heart disease, were conveniently excluded by the choice of the English Longitudinal Study of Ageing as the source of the British data, as were the Welsh and the Northern Irish. With this caveat, Dr Marmot's research revealed that people who are between 55 and 64 years of age are a lot sicker in America than they are in England (see chart). Diabetes is twice as common: 12.5% of Americans suffer from it, compared with 6.1% in England. Cancer is nearly twice as prevalent in America, while heart disease is half as high again.



The findings are based on people's own reports of their health. That could be misleading if, for example, Americans are more likely to describe themselves as sick than stiff-upper-lip Englishmen are. So, as a cross-check, Dr Marmot and his colleagues examined direct biological markers of health in the two populations by analysing blood samples taken during surveys of middle-aged people in both countries. These generally confirm the results. For example, levels of C-reactive protein (a marker of inflammation) and high-density lipoprotein (a cholesterol-transport molecule correlated with good cardiac health) both indicate that Americans are at much more risk of cardiovascular diseases than the English.

All of which raises the question of why middle-aged Americans are so much sicker than their English counterparts. Here, the researchers are more successful in ruling out explanations than in

providing them.

America's greater ethnic diversity is not the reason, since the research excludes blacks and Latinos (in England, it excludes Asians and blacks, to make the populations comparable). Access to health care is an obvious suspect, because America, unlike other rich countries, does not have universal coverage. Official figures show that 16% of the population is uninsured. However, only 7% of the middle-aged Americans in the survey lacked health insurance, while within the top third by income, access was almost universal. Yet such people were generally sicker than the top third of the English group. Insurance gaps are thus not to blame for Americans' poorer health.

Nor are unhealthy lifestyles the main culprit, say the researchers. Smoking rates among this age group are slightly higher in England. Obesity is more common in America, but heavy drinking is more widespread in England. Altogether, these risk factors explain very little of the health disparity between the two countries. For example, they account for less than a fifth of the difference in diabetes.

The study thus establishes that middle-aged Americans are much sicker than their English counterparts without being able to pinpoint why. One possibility is that ill health in America reflects obesity in the past as well as today. In 1980, 15% of Americans were already obese compared with 7% of Britons. England might, thus, simply be lagging behind America in the medical impact of prolonged obesity.

The study also has an intriguing implication: that America's medical system may not be such a poor bargain after all. As Dr Marmot's colleague James Banks observes, if Americans are sicker, then more should be spent on treating them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SCIENCE & TECHNOLOGY
PRINTABLE PAGE VIEW SPONSORED BY

Ecology and evolution

A heated debate

May 4th 2006
From The Economist print edition

A clue to an old ecological mystery

OF ALL the patterns in nature, one of the simplest, yet hardest to unpick, is that the further you travel from the tropics, the fewer species there are. This trend is found both by land and by sea, and applies to a vast range of different organisms. Despite the pattern's simplicity, though, its explanation is elusive, and the quest to find that explanation is one of the enduring themes of ecology. The latest attempt to crack the problem has just been published in the *Proceedings of the National Academy of Sciences* by Shane Wright and Jeannette Keeling, of the University of Auckland, and Len Gillman of AUT University, both in New Zealand. They think it is all a question of heat.

Most ecologists who have studied the phenomenon agree that the climate explains it somehow. It can surely be no coincidence that it is a great deal warmer and more pleasant in the tropics than at the poles. But quite how a nicer climate ends up producing more species is a mystery.

That there is more sunlight—and so more opportunity for photosynthesis—at the tropics explains why warm climates create more living matter (or biomass, as it is known to ecologists). It does not, however, explain why this biomass is apportioned into more species. Theories have ranged from the mundane (the greater stability of tropical climates imposes fewer random extinctions on species that are already there, allowing varieties to accumulate) to the wacky (that centrifugal force caused by the Earth's rotation exerts a slight pull towards the equator, thus biasing migration patterns). The theory examined by Dr Wright, Dr Keeling and Dr Gillman, however, is that evolution happens faster in the tropics because tropical conditions increase the mutation rate, and thus the amount of genetic variation available for natural selection to act on.

To test this idea, the team studied the DNA of pairs of closely related plant species in which one member of the pair was tropical and the other was found closer to the poles. For each pair of species, they worked out the rate at which changes were happening to the chemical “letters” in which the genetic message is encoded. This process, known as molecular evolution, results in changes in the genes, the proteins made from those genes and, ultimately, the organisms the genes reside in.

The researchers found that the rate at which nucleotides changed in tropical species was more than twice that found in species from temperate latitudes. That strongly suggests a faster mutation rate is at least part of the answer.

Dr Wright, Dr Keeling and Dr Gillman could think of three explanations why tropical plants might have higher rates of molecular evolution than temperate plants. The one they favoured is that the higher temperature of the tropics means that chemical reactions happen faster and metabolic rates are therefore higher. That increased metabolism would, in turn, generate more oxygen-rich molecules of a type known as free radicals, which are potent inducers of mutation.

To support this idea, the team had to eliminate the two alternative explanations. One is that because tropical species often have smaller populations than temperate ones, they are more susceptible to genetic drift. (In other words, a mutation can more easily become ubiquitous by chance in a small population than in a large one.) The other is that the relationship between mutation rates and speciation is the other way round, because a higher speciation rate causes natural selection to preserve more of the mutations that arise, even though the mutation rate itself has not changed.

The researchers eliminated the first possibility by selecting particularly common species for their study. The second they eliminated by looking at species from groups that (contrary to the trend they were attempting to explain) were as diverse in temperate climes as in the tropics. These, too, showed more tropical than temperate mutations.

By a process of elimination, therefore, the three researchers were left with the conclusion that, by pushing metabolic rates up, tropical heat causes more mutation and thus more speciation. In other words, evolution happens at a faster rate in Kenya than, say, in Kansas. It does, though, occur in Kansas, too—whatever some of its citizens might think.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Sand dunes on Titan

May 4th 2006
From The Economist print edition

In his novel “Dune”, Frank Herbert imagined a planet covered largely by sand dunes. As so often with art, though, nature seems to have got there first. This picture, published in *Science* by Ralph Lorenz of the University of Arizona and his colleagues, is a radar image of Titan, the largest moon of Saturn. The ripples it shows are sand dunes more than 100 metres high. These dunes are similar in form, size and cause (the blowing of the wind) to those found in the Namib desert on Earth. However, they are different in one crucial respect. Their sand is composed not of silica, but either of ice or of carbon compounds. And, sadly for romantics, there is no sign of giant sandworms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

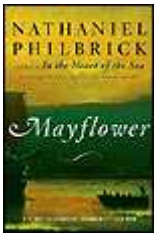
America's early settlers

Trials of the Pilgrims

May 4th 2006
From The Economist print edition

Two books on American history: the early colonists, on this page; America's tale in the context of what was happening elsewhere, on the next

Mayflower: A Story of Courage, Community, and War
By Nathaniel Philbrick



Viking; 368 pages; $29.95. To be published in Britain by HarperCollins in June

Buy it at
Amazon.com
Amazon.co.uk

North Wind

AN ASTONISHING 35m Americans are reckoned to be descended from passengers on the *Mayflower*, the legendary ship that in 1620 ferried 102 people, including many persecuted English Pilgrims, to a new life in Plymouth, Massachusetts. Nathaniel Philbrick's well-researched account makes this number seem even more impressive—the odds were that the Pilgrims would have no descendants at all. Months after landing, half the colonists were dead. Disease, and the harsh New England winter, took its toll.

One qualification should be made up front. Readers expecting another gripping shipboard drama, along the lines of Mr Philbrick's bestselling "In the Heart of the Sea" (about an ill-fated whaling ship), will be disappointed. Despite its title, "Mayflower" only briefly touches on the arduous two-month voyage made by the resolute travellers. Instead, Mr Philbrick tackles the vast challenge of settling into a new land. Jamestown, founded in 1607, set an ominous example: 70 of the 108 settlers there had perished in the first year.

For the new arrivals, two issues immediately dominated their plans: food and Indians. The Pilgrims reached America in November—not exactly planting time. After raiding the Indians' corn supplies, they eventually learned to grow crops that worked in America, where barley, peas and other English delicacies had failed. Strict organisation helped: before going ashore, 41 men had signed the "Mayflower Compact", agreeing to be bound by the laws of their own civil government. This short document is undoubtedly bold, though Mr Philbrick sounds overexcited when he claims that it "ranks with the Declaration of Independence and the United States Constitution as a seminal text".

As highly vulnerable newcomers, the Pilgrims were careful to establish diplomatic relations with the local Indians. The natives' numbers were down: they were just recovering from a massive outbreak of disease, probably passed on by European traders. Mutual suspicion was held in check. The Pilgrims paid back the pilfered corn, and they also secured an invaluable interpreter, Squanto. In 1621, Indian guests outnumbered Pilgrims at the first Thanksgiving (which did not get its name until centuries later). They brought five newly killed deer to the feast which, if it had truly indulged the Pilgrims' tastes, should also have featured plenty of beer.

The deterioration of English-Indian relations in New England forms the core of Mr Philbrick's tale. This is a huge topic, and it takes him ever further from his original *Mayflower* subjects. It was the godly settlers that drew the first serious blood. Fearful of attack by some tribes further afield, Miles Standish, the Pilgrims' hot-blooded military leader, led a pre-emptive strike that terrorised the Indians.

Pressure on land was mounting. Tens of thousands of Puritans, who were religiously akin to the Pilgrims, reached America in the 1630s and 1640s, clustering in Massachusetts Bay and Connecticut. The Indians were squeezed into ever smaller spaces as the English convinced them to sell their land. Dartmouth, Mr Philbrick reports, went for "30 yards of cloth, eight moose skins, 15 axes, 15 hoes, 15 pairs of shoes, one iron pot, and ten shillings' worth of assorted goods".

Tensions culminated in the bloody King Philip's War (1675-76). Though the conflict started in Plymouth, it swept up much of New England (Plymouth was in any case sliding towards insignificance because of its lack of a decent anchorage). Slaughter was rampant on both sides. Close to half of New England's towns were torched. Huge numbers of Indians died, from disease, starvation or war wounds. Often those captured in battle were drawn and quartered, including, at the end, King Philip, the leader of the Pokanoket tribe.

Particularly disgraceful, argues Mr Philbrick, was the treatment of friendly Indians (some of whom were called "Praying Indians"). These were often lumped in with the enemy. Some were among the estimated 1,000 Indians (half of them from Plymouth) who were shipped off to be slaves in

the West Indies and Africa.

He suggests that the bloodiness of the war propelled the settlers to centuries of tension: “Without friendly Indians to buffer them from their enemies, those living in the frontier were left open to attack.” He lavishes praise on Benjamin Church, who fought the Indians but tried to understand them, and exercised mercy—a quality that became ever more elusive for America's often intolerant early settlers.

Mayflower: A Story of Courage, Community, and War.
By Nathaniel Philbrick.
Viking; 368 pages; $29.95. To be published in Britain by HarperCollins in June

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

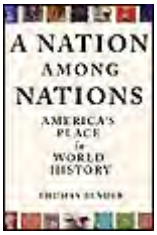
American history

Less exceptional than it thinks

May 4th 2006
From The Economist print edition

FROM its birth, three powerful images have coloured ideas of what the United States was and what it stood for. One was “a city on a hill”, a model commonwealth for the rest of humankind. Another, in Walt Whitman's phrase, was a “teeming nation of nations”: a near-empty continent of immigration and fresh starts. A third, given currency by Alexis de Tocqueville in 1831, was of a new and exceptional kind of society not bound by prevailing rules of history.

A Nation Among Nations: America's Place in World History
By Thomas Bender



Hill and Wang; 384 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

Each picture stresses what makes America different from other countries. Thomas Bender, a professor of history and humanities at New York University, wants us to focus instead on what makes the United States the same. More exactly, he is urging us to re-think key episodes in America's past by relating them to what was happening elsewhere in the world. The United States, he suggests, is less of a nation apart than super-patriots or America-haters might want to believe. His aim is not to belittle the American achievement but to break the habit of treating it as a virtually isolated feat of self-creation. National histories, he argues, are always local responses to broader trends, and to that rule the United States is no exception.

Five episodes form the core of this challenging essay. “The Ocean World” contrasts the conventional account of American beginnings, which stresses political ideals, religious freedom and economic opportunity, with a wider view that brings in sea-borne trade and slavery. Next, Mr Bender treats the American revolution as a by-product of the “great war” that France and Britain fought off and on throughout the 18th century until the defeat of Napoleon in 1815. The American civil war (1861-65) becomes part of the democratic era of nation building that began with the European revolutions of 1848.

The United States did not join Europe's scramble for empire at the end of the 19th century as a colonising power. But it fought a terrible war to control the Philippines, set a pattern of intervention in its own hemisphere and in Asia, and established a doctrine of untrammelled sea power that survives to this day. For his fifth episode, Mr Bender likens the progressive social reforms of the 1890s onwards to changes Europeans also made to temper the free market.

The breadth of view is exhilarating, and the reading daunting in scope. Mr Bender dots his essay with awkward reminders that the American past was not a smooth, inevitable rise to superpowerdom and moral beaconhood. Yet “A Nation Among Nations” suffers from an ambiguity of aim. At several points Mr Bender talks of a global story in which the United States has a local part. What is that story? He does not say. This is not his fault. Only the rashest of historians would nowadays dream of telling us, Hegel-wise, where the spirit of world history had come from and where it was headed.

Nor is gesturing towards “global trends” much help: ocean trade, nationalism and democracy, for example, are such broad categories they explain little of the local variation that puzzles us, especially when the locale is the United States, with its oddities—a high birth rate and strong religions, for example—that modern states are supposed not to have.

For the rest, Mr Bender is more modest, and more successful. American failures and successes are usually so large it is easy to forget that they are seldom unique or insulated from events elsewhere. The simple-sounding truth that the United States never was, and never could be, isolated from the world is worth repeating, and Mr Bender repeats it well.

A Nation Among Nations: America's Place in World History.
By Thomas Bender.
Hill and Wang; 384 pages; $26

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

New film

Apocalypse Now?

May 4th 2006 | LOS ANGELES
From The Economist print edition

Selling an inconvenient truth

UNLIKE many recent political documentaries, “An Inconvenient Truth” does not aim its fiercest fire at George Bush. Surprising this, especially as the film stars Al Gore, the man whom President Bush narrowly beat to the White House in 2000. Instead, Davis Guggenheim, the film's director, tries to rise above American politics, addressing his film, which is to be shown at the Cannes film festival later this month, to the whole of the human race.

Mr Guggenheim's film is a fascinating and alarming polemic that does, indeed, set out to speak to everyone. It was inspired by the lectures and slide-show on global warming that Mr Gore has delivered more than 1,000 times since he failed to become president. The former vice-president is shown talking about what he calls “our planetary emergency” to groups of concerned Americans, displaying the relaxed charm and sense of humour that he notably lacked as a political campaigner.

The powers of cinema are used to extend his teaching techniques: before-and-after photography from around the world, footage of ice-shelves collapsing, animated maps and graphs, even an interlude starring “The Simpsons”. These parts of the film, which recall the entertaining science documentaries that Frank Capra made in the 1950s, probably communicate as much information as an audience in a cinema can be expected to digest in one sitting.

In addition, the film tells a human story: how Mr Gore became an environmentalist, and the motives that have impelled him to devote the past five years to playing the part of Paul Revere, bearing his warning of approaching danger across the land. Orators have always understood that their listeners must believe in the good character of the person addressing them if he is to have any chance of winning them to his cause. To that end, Mr Guggenheim works away to humanise Mr Gore, who talks (as he has on other occasions) of almost losing his six-year-old son in a traffic accident and seeing his sister die of lung cancer—a personal catastrophe that spurred his family to get out of the tobacco business.

The film's end-credits, which intersperse appeals to the spectator with the names of the film-makers, do not actually include a “Draft Gore” sticker. Even without such an overt bow, this portrait of Gore the Crusader adds a political layer to the film's message which, despite the director's supposedly non-partisan hopes, the press (and a lot of other people too) will make much of. With a bit of luck, however, more attention will be paid to the message than to the messenger. If Mr Gore should happen to be right, and he may be, time is running out faster than most of the world thinks.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Ukraine

Orange flowers

May 4th 2006
From The Economist print edition

Ukraine's unlikely revolution has a grubby and confusing aftermath

Get article background

THE fall of communism brought Ukraine 13 years of criminal misrule. Power turned into wealth and back into power again in a seemingly endless cycle. But in late 2004, the grotesque rigging of the presidential election galvanised a real opposition movement for the first time. Well-organised and mainly youthful protestors, clad in orange, filled the centre of the capital, Kiev, setting up a tent city. Facing down both the regime's propaganda and its menacing goons, they refused to accept the election's fraudulent result. Prompted by the outside world, the crooks and spooks decided against violence, and left office under a face-saving deal.

The story of Ukraine's Orange revolution is gripping and tangled. Take the strange scandals that initially stoked public fury with the regime: when the headless corpse of a muck-raking, philandering journalist, Georgi Gongadze, was discovered, the investigation mysteriously tailed off amid a mixture of lies, bungling and obstruction. The foul-mouthed president, Leonid Kuchma, was bugged, supposedly by one of his own bodyguards.

EPA

Mrs Tymoshenko's murky radiance

Then the leading opposition candidate, Viktor Yushchenko, was mysteriously poisoned, in best KGB style; his disfigured face is an icon of the revolution. Another icon is the gorgeous Yulia Tymoshenko, a demagogic multi-millionairess, whose murky business past is matched only by the radiance of her political image.

None of these mysteries has been cleared up. The bugging seems to have been a clever plot rather than individual heroism. No one has been charged with ordering Gongadze's murder. The poisoning is a mystery too. Yet it would be easy to weave all this into an orange-tinted fairy-tale: a belated reprise of the joyous revolutions of 1989 which united central Europe with the rest of the continent.

An Orange Revolution: A Personal Journey Through Ukrainian History
By Askold Krushelnycky

Harvill Secker; 368 pages; £8.99

Buy it at Amazon.co.uk

Revolution in Orange: The Origins of Ukraine's Democratic Breakthrough
Edited by Anders Aslund and Michael McFaul

Carnegie Endowment for International Peace; 216 pages; $33.95 and £19.99

Buy it at

That is certainly a temptation for Askold Krushelnycky, a British journalist whose parents fled Ukraine after the war. His book is a fast-paced account of Ukrainian history from the year dot until the revolution's end, illustrated in part by his own family's story and his own part in events. He was a vital channel for rebellious officials wanting to dish the dirt about their bosses on issues such as ballot-rigging and the Gongadze murder.

Amazon.com
Amazon.co.uk

But the book suffers from the same thing that gives it authenticity: the author's own background in the Ukrainian diaspora. Self-sacrificing and determined though they often are, East European émigrés can be excessively one-sided. Mr Krushelnycky's treatment of Ukraine's ethnic minorities is as rudimentary as his treatment of Russia is snide.

It is still a good story, but the real one is a lot more complicated. Why did the Ukrainian tycoons, with their media empires and huge slush funds, desert the regime? How can Russia's puzzlingly clumsy policy be explained? Perhaps most importantly: how clean are the good guys? Some of these answers are to be found in a book edited by two well-known, American-based scholars of the post-Soviet world: Anders Aslund, an economist, and Michael McFaul, a political scientist.

If you want an exciting subject made dull, there are few better ways than having academics write about it. But the drama of the story keeps breaking through the jargon and waffle. A revealing chapter by Pavol Demes and Joerg Forbrig, two senior figures at an American pro-democracy outfit in Slovakia, provides a good account of the history of *Pora* (Enough), the youth movement at the heart of the protests.

But Ukraine's democratic evolution is still a work in progress; neither book deals with the mystifying squabbles and peculiar business deals that followed the Orange revolution. Mr Yushchenko and Mrs Tymoshenko fell out spectacularly and fought the March election as rivals. Now, in order to keep the revived party of the old regime out of power, they are back together again—though for how long, few would care to bet.

An Orange Revolution: A Personal Journey Through Ukrainian History.
By Askold Krushelnycky.
Harvill Secker; 368 pages; £8.99

Revolution in Orange: The Origins of Ukraine's Democratic Breakthrough.
Edited by Anders Aslund and Michael McFaul.
Carnegie Endowment for International Peace; 216 pages; $33.95 and £19.99

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

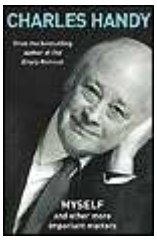
Management

A portfolio life

May 4th 2006
From The Economist print edition

CHARLES HANDY is the wise old man of British management, an avuncular figure with a keen ear for a memorable metaphor. His books have titles like “The Empty Raincoat” and “The Elephant and the Flea”, and he talks of phenomena such as “the shamrock organisation” (companies with three leaves of employment: full-time workers; subcontractors/outsourcers; and part-time specialists) and “the portfolio worker” (people who have a number of “jobs, clients and types of work” simultaneously). Mr Handy quotes someone's description of Peter Drucker, the great American management thinker who died last year, as a man “practising the scholarship of common sense”. He goes on to add, “I would like that to be said of me.” Mr Handy can take it as done. This book is a delightful distillation of common sense extracted from a very varied life.

Myself and Other More Important Matters
By Charles Handy



William Heinemann; 213 pages; £18.99

Buy it at Amazon.co.uk

The son of a Protestant Irish vicar, Mr Handy spent a decade on the graduate fast-track at Shell, some of it up remote rivers in Sarawak making mistakes and being given (as he puts it) a chance to redeem himself. He worked for some time as a professor at the London Business School and as the warden of St George's House, a peculiarly British institution, a sort of think-tank housed within the walls of Windsor Castle whose boss gets to sing Christmas carols and drink mulled wine with the queen and her corgis.

Mr Handy's main interest is organisations, and his message is that they are “not machines that can be neatly designed, mapped, measured and controlled”. A keen cook, he entertainingly uses his experience of moving his kitchen seven times within the same house as a lesson for managers who try to fit “a modern organisation into old-fashioned spaces”.

But it is his role in shaping British management education in the 1960s and 1970s that may be Mr Handy's most lasting legacy. After a year in Boston observing MIT's way of teaching he returned to Britain, to a country that then had no management education other than the ersatz activities that passed for it—accountancy training or a spell spent in the British army. On his return he helped set up the London Business School, drawing heavily on educational programmes (in particular the MBA) that he had much admired in America.

At the time, Britain was the only European country to introduce these methods and Mr Handy now seems to have some regrets. Why, he asks, did Britain not pause before adopting them without question? The accountants' training did not teach people to be managers, but “the way they and their kindred professions of law, medicine and architecture had been educating their future professionals did seem to have stood the test of time. They all consistently mixed formal learning with some form of apprenticeship.”

This touches at the heart of the debate about management education today. Mr Handy is clearly aligned with those who feel that it is bogged down in an overly-needy search for academic respectability. More common sense is what he stands for, and fewer common-rooms.

Myself and Other More Important Matters.
By Charles Handy.
William Heinemann; 213 pages; £18.99

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Opera management

Muddy times at the Met

May 4th 2006
From The Economist print edition

EVEN by the self-serving standards of opera managers' memoirs, written as the final curtain falls, Joseph Volpe's contribution errs on the side of faultlessness. From stage carpenter to company boss at the Metropolitan Opera, he always got it right. His good buddy, Mayor Rudy Giuliani, famous for a 1996 walk-on part in “Die Fledermaus”, tells him: “You know, Joe, you have the toughest job in New York, including mine.” Joe nods sagely and carries on getting it right.

The Toughest Show on Earth: My Rise and Reign at the Metropolitan Opera
By Joseph Volpe

Knopf; 302 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

AP

Pavarotti shows how to keep the big boys happy

He stands no nonsense from pesky artists. He gets rid of the sopranos Angela Gheorghiu and Kathleen Battle, the Italian conductor, Daniele Gatti, and the British director, Jonathan Miller (“the world's expert on everything”), and settles his scores with the box-ticking satisfaction of a retiring tax inspector.

This slickly ghosted account of everyday life at America's greatest opera house does little more than rehash old headlines. Mr Volpe's rule was not quite as triumphant as he pretends, and we have yet to see the size of the deficit that he leaves to his successor, Peter Gelb, a music-industry fixer whom Mr Volpe once threw bodily across a room in Lincoln Centre.

Mr Gelb has promised to dismantle large parts of the Volpe legacy. But Mr Volpe demands rhetorically: “How can a place like the Met survive?” His belief is that the company “has an angel watching over it”—in this case, the winged kind, not one of the well-endowed board members who always stump up $5m or so to cover outstanding bills.

For the Met remains a plutocrats' club, run by a board of big donors, spending $220m a year, with a deficit bigger than the entire budget of its nearest rival. It is a conservative corporation, suspicious of modernity, admitting Janacek's “Katya Kabanova” composed in 1921 barely a decade ago, and almost swallowing its cigar-butts when Karita Mattila, a Finnish soprano, unaffectedly dropped the last of her seven veils in “Salome”. She appeared full frontal in a slavering press (and in this book), despite Mr Volpe's best efforts at the time to suppress the lubricious pictures.

His task was to keep the huge house full and the unions quiet, and to make sure that the foremost living voices turned up every season to reassure New Yorkers that the Met was truly the greatest show on earth. Mr Volpe did well to balance the mutual jealousies of Luciano Pavarotti and Plácido Domingo, keeping them in harness as Covent Garden never could. But he is unrevealing about the measures he used to keep the big boys happy, as well as about his tricky co-existence with James Levine, the Met's elusive music director, in charge for a third of a century.

Nor does he reveal much about the scandal when Alberto Vilar, a Cuban-American dotcom investor, promised the Met $35m, got the Grand Tier renamed after him, failed to deliver when the markets collapsed, had his name scratched off the walls (on Mr Volpe's orders) and faces trial in October on 12 counts of fraud. Mr Volpe admits to lacking “a gift for a turn of phrase” but on this evidence he is unacceptably vague on character assessment, reluctant to fathom the weird and wondrous creatures of the operatic zoo.

The Met's box-office decline was not his fault. This began on September 11th 2001, a date that has affected many other places of entertainment. But his failure to renew the operatic repertoire and attract a younger audience left the company unable to respond to volatile conditions. A change of managers was overdue. The job is getting tougher by the minute and sceptics predict that the Met is heading for a fall.

The Toughest Show on Earth: My Rise and Reign at the Metropolitan Opera.
By Joseph Volpe.
Knopf; 302 pages; $25.95

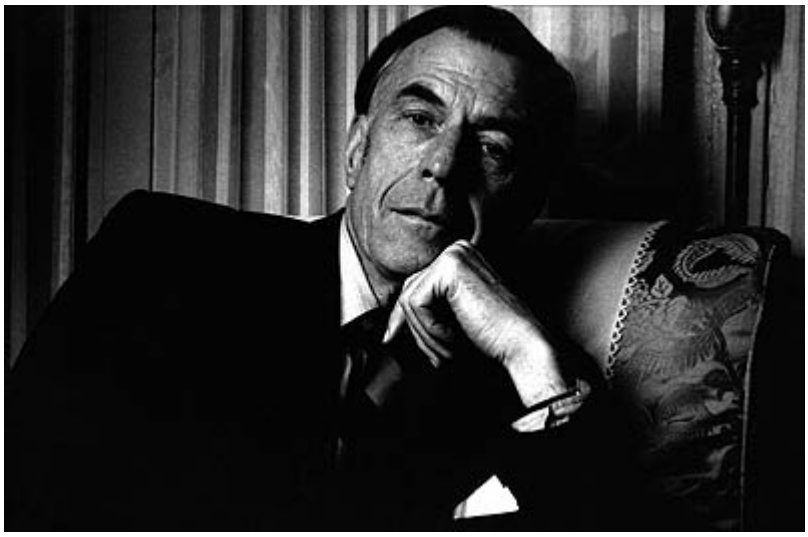
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

John Kenneth Galbraith

May 4th 2006
From The Economist print edition

John Kenneth Galbraith, economist and public intellectual, died on April 29th, aged 97

Corbis



ABOVE a large oak bookcase in John Kenneth Galbraith's elegant sitting room in Cambridge, Massachusetts, a framed sampler was displayed. “Galbraith's First Law”, read the meticulous red and blue cross-stitch: “Modesty is a vastly overrated virtue.” He thoroughly believed it. Save for his humble origins on a farm in Ontario, little about Mr Galbraith or his life was modest.

At six foot eight, he was a giant. Intellectually he was equally towering, a man who spent more than seven decades either on the stage of American public policy—as a bureaucrat in Franklin Roosevelt's New Deal, a confidante of John Kennedy and adviser to countless other Democrats—or loudly lambasting Washington from offstage left, as a Harvard professor.

For several of those decades, Mr Galbraith—much to the chagrin of his academic colleagues—could claim to be the best-known economist in the world. His books, more than 40 of them, were spectacularly successful. All this made him an extraordinary public intellectual. But for many, particularly on America's left, he was much more. Mr Galbraith embodied a creed (a broad scepticism of markets and unshakeable belief in a strong state to balance them) and an era, the 1960s, when that sort of liberalism reached its peak. In many eyes, and perhaps his own, Mr Galbraith was America's Great Liberal Economist, the intellectual heir to John Maynard Keynes, whose contributions to economics are underappreciated by a profession obsessed with mathematical formulae.

He was certainly Keynes's heir in his passion for the trenches of public policy, his recognition that economics could and should be accessible, and his way with words. A devotee of Trollope and Evelyn Waugh—“Scoop” was a favourite—Mr Galbraith strove to perfect his prose, reworking each

passage at least five times. “It was usually on about the fourth day that I put in that note of spontaneity for which I am known,” he once admitted.

Bons mots, however, seemed to come naturally to him. “Economists are economical, among other things, of ideas; most make those of their graduate days last a lifetime.” “Wealth is not without its advantages, and the case to the contrary, although it has often been made, has never proved widely persuasive.” As Kennedy's ambassador to India, Mr Galbraith preferred to write to the president direct: sending letters through the State Department, he told Kennedy, was “like fornicating through a mattress”.

Where Mr Galbraith differed from Keynes, and from other Great Economists such as Milton Friedman, was that he produced no robust economic theories. Robert Skidelsky, Keynes's biographer, thought that he lacked “the theoretical brilliance, or perhaps merely interest”. In fact, Mr Galbraith disdained a theoretical approach to economics. This was more than a simple aversion to mathematical formulae. The greatest problem with economics, he argued, was its “wilful denial of the presence of power and political interests”. By positing an idealised world of perfect competition, economic theory assumed away the factors that drove societies.

Mr Galbraith was thus less an economist than a mixture of sociologist, political scientist and journalist. His three most influential books were snapshots of the America of their time. In “American Capitalism” (1952), giant firms were balanced by the “countervailing power” of, for instance, unions; in “The Affluent Society” (1958), massive private consumption coexisted with public decay; in “The New Industrial State” (1967), producers held all the economic power and competition was irrelevant. Time proved especially unkind to that idea.

His faith in government, born of the searing experience of the Depression, verged sometimes on the bizarre. In 1973, for instance, he argued that America's few-hundred biggest companies should be brought into public ownership. Yet if Mr Galbraith was often wrong, he nonetheless gave much to American public life. “The Affluent Society” not only changed the way the country viewed itself, but gave new phrases to the language: “Conventional wisdom”, “the bland leading the bland”, “private opulence and public squalor”. Amartya Sen, the Indian economist, said that reading it was like reading “Hamlet”: “You realise where [all the quotations] came from”.

Competition in Gstaad

Long after Mr Galbraith's brand of big-government liberalism fell out of favour, he remained its standard-bearer. His acerbic comments on public policy were always worth reading. In private matters he was not partisan, and could count Bill Buckley, the conservative intellectual, among his closest friends. In the local bookstore in Gstaad, where they both went skiing, they would battle to get their books the best spot in the window.

A decade ago, Mr Galbraith lamented that old age brought an annoying affliction he called the “Still Syndrome”. People would constantly note that he was “still” doing things: still “interested in politics” when he showed up at a meeting, “still imbibing” when he had a drink and “still that way” when his eyes lit up on seeing a beautiful woman. The Still Syndrome lasted an immodestly long time. Its passing has left America poorer.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

May 4th 2006
From The Economist print edition

America's GDP grew at an annual pace of 4.8% in the first quarter of 2006, rebounding from a slow final quarter in 2005. This quickening of activity was mainly owing to heavier purchases of durable goods, more federal spending and greater investment in equipment and software.

Activity may be even stronger in April, according to the Institute for Supply Management's business surveys. Its **manufacturing** index rose to 57.3—any reading above 50 suggests an expansion—while its **non-manufacturing** index reached 63, an eight-month high.

Two worrying trends in the American economy—the fall in household saving and the accelerating cost of fringe benefits—may be easing. The **personal saving** rate was –0.3% in March, compared with –0.6% the month before. Meanwhile, the **cost of benefits** grew by 3.4% in the year to March, compared with 4.5% in the year to December 2005.

Inflation in the **euro area** rose to 2.4% in the year to April, according to early estimates, up from 2.2% in the year to March. Unemployment in the 12-member block fell to 8.1% in March, from 8.8% a year earlier.

Two surveys of euro-area businessmen suggest the continent's industries picked up momentum in April. The purchasing-managers' index for **manufacturing**, compiled by NTC Research, increased to 56.7. Similarly, the European Commission's Business Climate Indicator continued on an upward trend first established in May 2005.

Japan is getting used to **inflation**. Consumer prices rose by 0.3% in the year to March. Core prices, excluding fresh food, rose by 0.5%, the fifth increase in a row.

Japan's industrial production expanded by 0.2% in March, leaving it 3.1% higher than the year before. The Ministry of Economy, Trade and Industry said that transport equipment, electronics and paper products led the way. Japan's unemployment rate was 4.1% in March, unchanged from the month before, though the jobless total has fallen by 240,000 from a year earlier.

The Reserve Bank of **Australia** raised its key interest rate by a quarter-point to 5.75%. The central bank is seeking to offset the boost in demand that Australia will enjoy from its commodity exports, which are fetching high prices on world markets.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

May 4th 2006
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	latest	qtr*	2006	2007	latest		latest		latest		year ago
Australia	+ 2.7 Q4	+ 1.9	+ 3.1	+ 3.4	+ 0.6	Q4	+ 1.9	Q4	5.0	Mar	5.2
Austria	+ 2.1 Q4	+ 2.8	+ 2.2	+ 1.9	+ 6.3	Feb	+ 2.4	Feb	4.8	Apr	5.1
Belgium	+ 2.2 Q1	+ 3.2	+ 2.2	+ 1.8	+ 6.3	Feb	– 1.9	Feb	12.2	Mar†	12.6
Britain	+ 2.2 Q1	+ 2.6	+ 2.3	+ 2.4	– 1.4	Feb	+ 2.6	Mar	5.1	Feb‡	4.8
Canada	+ 2.9 Q4	+ 2.5	+ 3.1	+ 2.8	+ 1.4	Feb	+ 4.4	Jan	6.3	Mar	6.9
Denmark	+ 3.3 Q4	– 0.1	+ 2.8	+ 2.2	+ 7.1	Feb	+ 5.4	Mar	4.8	Mar	6.0
France	+ 1.5 Q4	+ 1.4	+ 2.0	+ 2.0	– 0.3	Feb	+ 1.7	Feb	9.5	Mar	10.1
Germany	+ 1.0 Q4	nil	+ 1.8	+ 1.2	+ 6.4	Feb	– 1.2	Mar	11.3	Apr§	11.9
Italy	+ 0.5 Q4	+ 0.1	+ 1.2	+ 1.1	+ 3.4	Feb	+ 0.2	Jan	7.7	Dec	7.9
Japan	+ 4.0 Q4	+ 5.4	+ 3.0	+ 2.4	+ 3.1	Mar	– 0.2	Feb	4.1	Mar	4.5
Netherlands	+ 1.6 Q4	+ 3.2	+ 2.5	+ 1.9	+ 0.6	Feb	+ 7.4	Jan	5.9	Mar††	6.7
Spain	+ 3.5 Q4	+ 3.9	+ 3.1	+ 2.7	+ 2.3	Feb	+ 0.1	Feb	8.7	Mar	9.9
Sweden	+ 2.9 Q4	+ 2.6	+ 3.3	+ 2.8	+ 1.5	Feb	+ 5.1	Mar	5.5	Mar†	6.0
Switzerland	+ 2.7 Q4	+ 2.1	+ 2.3	+ 1.7	+ 3.9	Q4	+ 0.4	Feb	3.6	Mar†	3.9
United States	+ 3.5 Q1	+ 4.8	+ 3.3	+ 2.8	+ 3.6	Mar	+ 5.1	Feb	4.7	Mar	5.1
Euro area	+ 1.7 Q4	+ 1.0	+ 2.1	+ 1.7	+ 3.2	Feb	+ 1.0	Feb	8.1	Mar	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.9 Q4	+ 3.7	na	na	+ 3.7	Mar	+ 4.5	Feb	7.9	Mar	8.3
Greece	+ 3.7 Q4	na	na	na	– 1.7	Feb	+ 0.5	Jan	9.7	Q4	10.4
Iceland	+ 3.6 Q4	na	na	na	na		na		1.6	Feb†	2.8
Ireland	+ 5.7 Q4	+ 7.6	na	na	– 5.2	Feb	+ 6.0	Feb	4.5	Mar	4.4
Luxembourg	+ 5.7 Q4	na	na	na	+12.7	Jan	+ 9.1	Feb	4.7	Feb	4.4
New Zealand	+ 1.9 Q4	nil	na	na	– 2.9	Q4	+ 3.0	Q4	3.6	Q4	3.6
Norway	+ 2.5 Q4	+ 1.0	na	na	+ 0.5	Feb	+ 7.7	Mar	3.9	Feb**	4.6
Portugal	+ 0.7 Q4	+ 0.4	na	na	– 1.5	Feb	– 0.1	Mar	8.0	Q4†	7.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Dec-Feb; claimant count rate 3.0% in Mar.
§EU harmonised rate 8.9% in Feb. ††Jan-Mar. **Dec-Feb.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

May 4th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 3.0	Q1	+ 2.4	+ 2.8	+ 2.7	+ 7.9	Q1	+ 6.0	+ 5.3	Q4	+ 2.9
Austria	+ 1.0	Mar	+ 2.9	+ 1.9	+ 1.8	+ 1.9	Mar	+ 4.0	+ 2.7	Mar	+ 2.2
Belgium	+ 2.0	Apr	+ 2.8	+ 2.1	+ 1.8	+ 4.1	Mar	+ 3.8	+ 2.3	Oct	+ 2.4
Britain	+ 1.8	Mar*	+ 1.9	+ 2.0	+ 1.9	+ 2.5	Mar	+ 2.9	+ 4.2	Feb†	+ 4.6
Canada	+ 2.2	Mar	+ 2.3	+ 2.1	+ 2.1	+ 1.1	Mar	+ 2.6	+ 0.6	Jan	+ 2.0
Denmark	+ 1.9	Mar	+ 1.4	+ 1.9	+ 2.0	+ 3.8	Mar	+ 4.2	+ 2.9	Q4	+ 2.9
France	+ 1.5	Mar	+ 1.9	+ 1.7	+ 1.5	+ 3.3	Mar	+ 3.2	+ 3.3	Q4	+ 3.0
Germany	+ 2.0	Apr	+ 1.6	+ 1.6	+ 2.3	+ 2.5	Mar	+ 3.3	+ 1.5	Feb	+ 1.2
Italy	+ 2.2	Apr	+ 1.9	+ 2.1	+ 1.9	+ 4.5	Mar	+ 4.8	+ 2.7	Mar	+ 3.5
Japan	+ 0.3	Mar	− 0.2	+ 0.4	+ 0.6	+ 2.7	Mar	+ 1.4	− 0.6	Mar	+ 1.3
Netherlands	+ 1.2	Apr	+ 1.5	+ 1.6	+ 1.5	+ 4.9	Mar	+ 5.3	+ 1.7	Mar	+ 0.6
Spain	+ 3.9	Mar	+ 3.4	+ 3.5	+ 2.8	+ 5.8	Mar	+ 5.1	+ 2.5	Q4	+ 2.7
Sweden	+ 1.1	Mar	+ 0.1	+ 1.2	+ 1.8	+ 5.1	Mar	+ 2.5	+ 2.8	Feb	+ 2.7
Switzerland	+ 1.1	Apr	+ 1.4	+ 1.2	+ 1.2	+ 1.6	Mar	+ 1.4	+ 1.0	2005	+ 0.9
United States	+ 3.4	Mar	+ 3.1	+ 3.0	+ 2.3	+ 3.5	Mar	+ 4.9	+ 3.4	Mar	+ 2.6
Euro area	+ 2.4	Apr	+ 2.1	+ 2.0	+ 2.0	+ 5.3	Mar	+ 4.2	+ 2.4	Q4	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.9	Mar	+ 1.0	na	na	+ 5.3	Mar	+ 2.4	+ 3.5	Q4	+ 4.3
Greece	+ 3.3	Mar	+ 2.9	na	na	+ 7.8	Mar	+ 4.7	na		na
Iceland	+ 4.5	Apr	+ 4.3	na	na	+ 5.3	Apr	+ 6.6	+ 8.6	Mar	+ 6.5
Ireland	+ 3.5	Mar	+ 2.1	na	na	+ 3.6	Mar	− 2.3	+ 3.8	Q4	+ 4.6
Luxembourg	+ 3.0	Mar	+ 2.4	na	na	+ 3.9	Feb	+17.7	+ 2.5	Jan	+ 0.2
New Zealand	+ 3.3	Q1	+ 2.8	na	na	+ 6.5	Q4	+ 3.4	+ 3.1	Q4	+ 2.5
Norway	+ 2.4	Mar	+ 1.0	na	na	+15.1	Mar	+17.5	+ 3.1	Q4	+ 3.9
Portugal	+ 3.1	Mar	+ 2.2	na	na	+ 5.4	Mar	+ 4.6	nil	Feb	− 1.5

*RPI inflation rate 2.4% in Mar. †Dec-Feb.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

May 4th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 3.0	Q1	+ 2.4	+ 2.8	+ 2.7	+ 7.9	Q1	+ 6.0	+ 5.3	Q4	+ 2.9
Austria	+ 1.0	Mar	+ 2.9	+ 1.9	+ 1.8	+ 1.9	Mar	+ 4.0	+ 2.7	Mar	+ 2.2
Belgium	+ 2.0	Apr	+ 2.8	+ 2.1	+ 1.8	+ 4.1	Mar	+ 3.8	+ 2.3	Oct	+ 2.4
Britain	+ 1.8	Mar*	+ 1.9	+ 2.0	+ 1.9	+ 2.5	Mar	+ 2.9	+ 4.2	Feb†	+ 4.6
Canada	+ 2.2	Mar	+ 2.3	+ 2.1	+ 2.1	+ 1.1	Mar	+ 2.6	+ 0.6	Jan	+ 2.0
Denmark	+ 1.9	Mar	+ 1.4	+ 1.9	+ 2.0	+ 3.8	Mar	+ 4.2	+ 2.9	Q4	+ 2.9
France	+ 1.5	Mar	+ 1.9	+ 1.7	+ 1.5	+ 3.3	Mar	+ 3.2	+ 3.3	Q4	+ 3.0
Germany	+ 2.0	Apr	+ 1.6	+ 1.6	+ 2.3	+ 2.5	Mar	+ 3.3	+ 1.5	Feb	+ 1.2
Italy	+ 2.2	Apr	+ 1.9	+ 2.1	+ 1.9	+ 4.5	Mar	+ 4.8	+ 2.7	Mar	+ 3.5
Japan	+ 0.3	Mar	− 0.2	+ 0.4	+ 0.6	+ 2.7	Mar	+ 1.4	− 0.6	Mar	+ 1.3
Netherlands	+ 1.2	Apr	+ 1.5	+ 1.6	+ 1.5	+ 4.9	Mar	+ 5.3	+ 1.7	Mar	+ 0.6
Spain	+ 3.9	Mar	+ 3.4	+ 3.5	+ 2.8	+ 5.8	Mar	+ 5.1	+ 2.5	Q4	+ 2.7
Sweden	+ 1.1	Mar	+ 0.1	+ 1.2	+ 1.8	+ 5.1	Mar	+ 2.5	+ 2.8	Feb	+ 2.7
Switzerland	+ 1.1	Apr	+ 1.4	+ 1.2	+ 1.2	+ 1.6	Mar	+ 1.4	+ 1.0	2005	+ 0.9
United States	+ 3.4	Mar	+ 3.1	+ 3.0	+ 2.3	+ 3.5	Mar	+ 4.9	+ 3.4	Mar	+ 2.6
Euro area	+ 2.4	Apr	+ 2.1	+ 2.0	+ 2.0	+ 5.3	Mar	+ 4.2	+ 2.4	Q4	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.9	Mar	+ 1.0	na	na	+ 5.3	Mar	+ 2.4	+ 3.5	Q4	+ 4.3
Greece	+ 3.3	Mar	+ 2.9	na	na	+ 7.8	Mar	+ 4.7	na		na
Iceland	+ 4.5	Apr	+ 4.3	na	na	+ 5.3	Apr	+ 6.6	+ 8.6	Mar	+ 6.5
Ireland	+ 3.5	Mar	+ 2.1	na	na	+ 3.6	Mar	− 2.3	+ 3.8	Q4	+ 4.6
Luxembourg	+ 3.0	Mar	+ 2.4	na	na	+ 3.9	Feb	+17.7	+ 2.5	Jan	+ 0.2
New Zealand	+ 3.3	Q1	+ 2.8	na	na	+ 6.5	Q4	+ 3.4	+ 3.1	Q4	+ 2.5
Norway	+ 2.4	Mar	+ 1.0	na	na	+15.1	Mar	+17.5	+ 3.1	Q4	+ 3.9
Portugal	+ 3.1	Mar	+ 2.2	na	na	+ 5.4	Mar	+ 4.6	nil	Feb	− 1.5

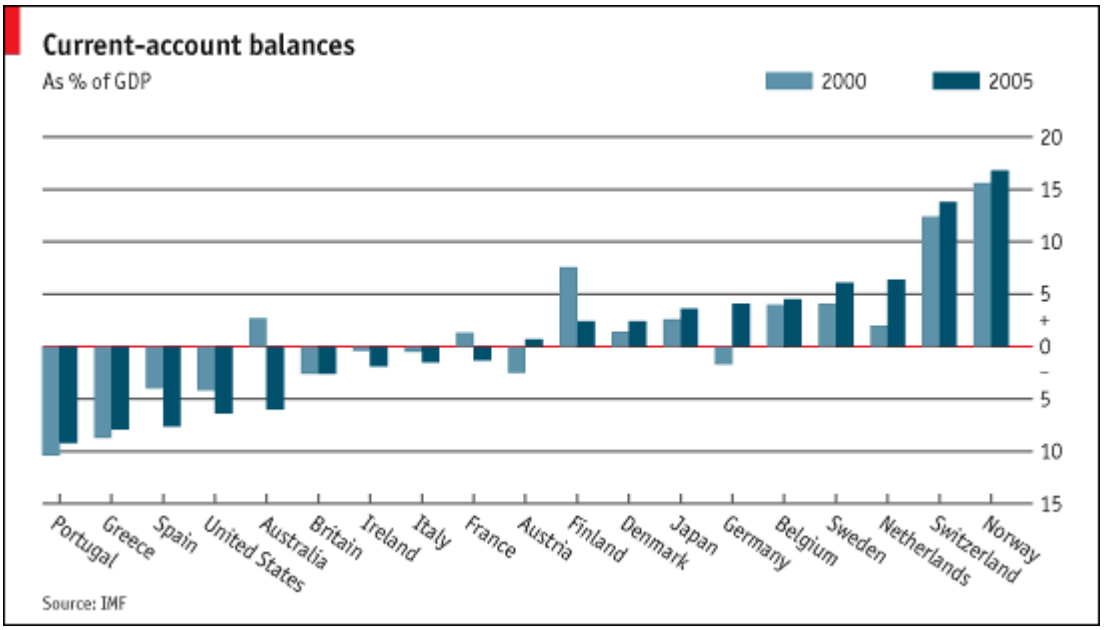
*RPI inflation rate 2.4% in Mar. †Dec-Feb.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Current-account balances

May 4th 2006
From The Economist print edition

Spain's current-account deficit is bigger than America's, relative to the size of the Spanish economy, and it is deteriorating faster. But Spain is in no danger of suffering a run on its currency, which it shares with 11 other countries. Switzerland's current-account surplus, of more than $50 billion, reflects depressed investment rates in the country. Swiss savers are pursuing more lucrative opportunities abroad.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

May 4th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (May 3rd 2006)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+10.4	+ 9.1	Mar	5.87	5.69	5.71	5.77	5.29	6.36
Britain	+ 6.7	+12.4	Mar	4.64	4.89	4.67	4.65	4.54	5.11
Canada	+11.7	+ 6.8	Mar	4.03	2.46	4.18	4.51	4.19	5.67
Denmark	+18.3	+16.9	Mar	2.95	2.18	3.48	4.01	3.44	5.36
Japan	+ 5.0	+ 1.5	Mar	0.04	0.02	0.66	1.92	1.24	2.02
Sweden	- 0.5	+10.9	Mar	2.06	1.92	3.00	3.87	3.43	3.74
Switzerland	+ 1.6	+ 4.7	Mar	1.39	0.76	1.96	2.73	2.01	2.62
United States	+ 0.8	+ 4.7	Mar‡	5.02	3.12	4.92	5.14	4.18	6.11
Euro area†	+10.1	+ 8.6	Mar	2.87	2.13	3.39	3.96	3.38	4.46

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series for broad money supply. Benchmarks: US 30-year 5.23%, Japan No. 278 1.88%. Central bank rates: US fed funds 4.75%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources:Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

May 4th 2006
From The Economist print edition

2000=100

	Apr 25th	May 2nd*	% change on one month	% change on one year
Dollar index				
All items	171.2	173.8	+ 9.7	+31.3
Food	136.0	137.4	+ 2.6	+ 8.1
Industrials				
All	216.9	220.8	+16.1	+58.8
Nfa†	149.3	151.0	+ 0.4	+16.5
Metals	253.7	258.8	+22.2	+79.5
Sterling index				
All items	145.3	143.2	+ 4.6	+35.0
Euro index				
All items	127.7	127.1	+ 6.3	+33.9
Yen index				
All items	182.4	182.5	+ 5.7	+41.4
Gold				
$ per oz	630.25	664.50	+13.2	+55.3
West Texas Intermediate				
$ per barrel	72.29	74.54	+12.6	+50.7

*Provisional. †Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

May 4th 2006
From The Economist print edition

Market indices

	May 3rd	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,224.9	5,272.1	4,708.8	- 0.9	- 0.9	+11.0	+16.4
Austria (ATX)	4,257.8	4,302.4	3,682.4	- 1.0	- 1.0	+16.1	+24.1
Belgium (Bel 20)	3,928.1	3,978.0	3,573.9	nil	- 1.3	+10.7	+18.3
Britain (FTSE 100)	6,010.0	6,132.7	5,618.8	- 1.5	- 13.3	+ 7.0	+14.7
Canada (Toronto Composite)	12,196.2	12,487.3	11,272.3	- 1.0	- 2.3	+ 8.2	+14.0
Denmark (OMXCB)	378.5	395.5	362.0	- 0.3	- 4.3	+ 2.9	+10.0
France (SBF 250)	3,669.8	3,717.4	3,327.6	- 1.3	- 16.4	+11.2	+18.9
France (CAC 40)	5,193.9	5,255.3	4,748.3	- 1.1	- 25.0	+10.2	+17.8
Germany (DAX)*	5,969.0	6,107.1	5,334.3	- 2.3	- 26.0	+10.4	+18.0
Italy (S&P/MIB)	37,910.0	38,602.0	35,652.0	- 1.1	- 24.3	+ 6.2	+13.5
Japan (Nikkei 225)	17,153.8§	17,563.4	15,341.2	+ 0.6	- 55.9	+ 6.5	+10.6
Japan (Topix)	1,737.2§	1,783.7	1,572.1	+ 0.8	- 39.8	+ 5.3	+ 9.4
Netherlands (AEX)	464.6	478.0	431.5	- 2.7	- 33.8	+ 6.4	+13.7
Spain (Madrid SE)	1,294.7	1,299.1	1,156.8	- 0.3	- 0.3	+12.0	+19.7
Sweden (Affarsvarlden Gen)	327.4	333.6	287.3	- 1.1	- 18.2	+11.6	+20.2
Switzerland (Swiss Market)	7,964.7	8,109.3	7,583.9	- 1.3	- 5.3	+ 5.0	+11.8
United States (DJIA)	11,400.3	11,416.5	10,667.4	+ 0.4	- 2.8	+ 6.4	+ 6.4
United States (S&P 500)	1,307.9	1,313.2	1,248.3	+ 0.2	- 14.4	+ 4.8	+ 4.8
United States (NASDAQ Comp)	2,304.0	2,370.9	2,205.3	- 1.3	- 54.4	+ 4.5	+ 4.5
Europe (FTSEurofirst 300)†	1,379.2	1,397.1	1,277.1	- 0.8	- 19.1	+ 8.1	+15.6
Euro area (FTSE Euro 100)†	1,176.4	1,196.7	1,078.9	- 1.6	- 24.1	+ 8.0	+15.5
World (MSCI)‡	1,377.6	1,385.4	1,259.1	+ 0.6	- 4.9	+ 9.5	+ 9.5
World bond market (Citigroup)††	633.5	638.9	612.1	+ 1.2	- 0.8	+ 2.1	+ 2.1

*Total return index. †In euro terms. ‡Morgan Stanley Capital International Index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms. §May 2nd

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

May 4th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2006	2007	Exchange rate trade-weighted† 2000=100 May 3rd	year ago	Currency units per $ May 3rd	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 12.8	Feb	− 42.1	Q4	− 5.5	− 5.0	119.2	115.1	1.30	1.29	2.39	1.64	1.14	+ 1.0
Austria	− 2.0	Feb	+ 0.5	Dec	+ 0.1	+ 0.1	104.8§	105.8	0.79	0.77	1.46	–	0.70	− 2.0
Belgium	+ 12.3	Feb	+ 6.6	Dec	+ 2.0	+ 2.1	106.4§	107.7	0.79	0.77	1.46	–	0.70	nil
Britain	−121.5	Feb	− 57.4	Q4	− 2.5	− 2.5	99.5	101.2	0.54	0.53	–	0.69	0.48	− 3.1
Canada	+ 59.9	Feb	+ 25.2	Q4	+ 2.2	+ 1.6	129.9	114.4	1.11	1.25	2.04	1.40	0.98	+ 1.3
Denmark	+ 8.7	Feb	+ 6.0	Feb	+ 2.7	+ 2.5	106.2	106.3	5.91	5.75	10.9	7.46	5.20	+ 2.8
France	− 30.3	Feb	− 43.5	Feb	− 1.6	− 1.3	107.1§	108.6	0.79	0.77	1.46	–	0.70	− 3.2
Germany	+195.8	Feb	+113.3	Feb	+ 3.9	+ 4.1	108.5§	110.2	0.79	0.77	1.46	–	0.70	− 3.9
Italy	− 16.3	Feb	− 28.5	Feb	− 1.5	− 1.4	106.7§	108.1	0.79	0.77	1.46	–	0.70	− 4.3
Japan	+ 86.5	Feb	+163.4	Feb	+ 3.7	+ 3.6	82.8	89.4	114	104	209	143	–	− 6.5
Netherlands	+ 39.1	Feb	+ 39.8	Q4	+ 5.7	+ 5.6	107.2§	108.5	0.79	0.77	1.46	–	0.70	− 1.6
Spain	− 98.8	Feb	− 82.3	Jan	− 7.3	− 7.4	105.1§	106.0	0.79	0.77	1.46	–	0.70	+ 0.3
Sweden	+ 19.3	Mar	+ 21.8	Q4	+ 6.5	+ 6.1	96.9	98.7	7.38	7.08	13.6	9.31	6.50	+ 1.2
Switzerland	+ 7.5	Mar	+ 50.2	Q4	+13.0	+12.3	106.5	107.8	1.24	1.19	2.28	1.56	1.09	− 1.6
United States	−798.3	Feb	−804.9	Q4	− 6.8	− 6.7	83.1	82.4	–	–	–	1.84	1.26	0.88	− 3.7
Euro area	+ 10.8	Feb	− 39.1	Feb	− 0.3	− 0.1	117.9	117.6	0.79	0.77	1.46	–	0.70	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 9.5	Feb	+ 4.2	Feb	na	na	107.9§	109.2	0.79	0.77	1.46	–	0.70	+ 2.1
Greece	− 34.5	Jan	− 19.6	Feb	na	na	104.1§	104.9	0.79	0.77	1.46	–	0.70	− 4.5
Iceland	− 1.7	Mar	− 2.6	Q4	na	na	106.2**	98.2	73.8	64.1	136	93.1	64.9	+ 2.0
Ireland	+ 38.9	Feb	− 3.9	Q4	na	na	111.7§	114.2	0.79	0.77	1.46	–	0.70	− 0.9
Luxembourg	− 4.9	Jan	+ 3.6	Q4	na	na	106.4§	107.7	0.79	0.77	1.46	–	0.70	− 2.3
New Zealand	− 4.8	Mar	− 9.6	Q4	na	na	124.5	137.6	1.56	1.37	2.87	1.97	1.37	+ 5.3
Norway	+ 51.1	Mar	+ 49.5	Q4	na	na	113.5	108.0	6.14	6.26	11.3	7.74	5.40	+ 15.3
Portugal	− 22.9	Jan	− 17.1	Feb	na	na	105.1**	106.6	0.79	0.77	1.46	–	0.70	− 6.0

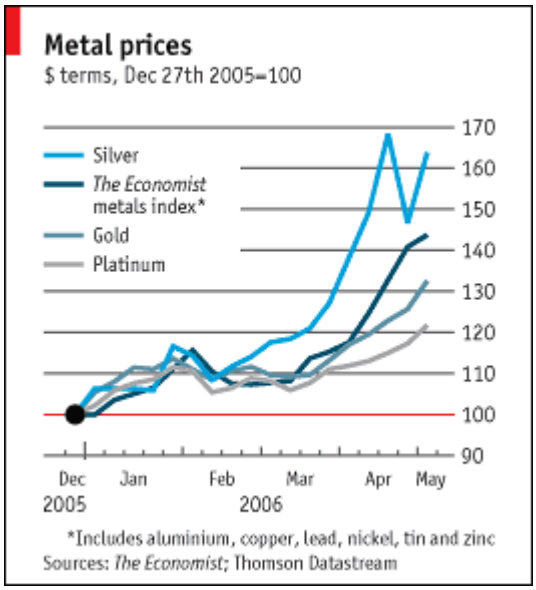
*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, February average. ‡OECD estimate.
**IMF, December average.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Metal prices

May 4th 2006
From The Economist print edition

Metal prices continue to soar. Copper, nickel, zinc and platinum have all hit record levels. Copper has risen by 60% so far this year; nickel by 45%. Gold is at a 25-year high; silver, a 23-year high.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

May 4th 2006
From The Economist print edition

New figures showed that **China's** current-account surplus surged to $161 billion last year, up from $69 billion in 2004. **Turkey's** trade deficit widened to a record $45.8 billion in the year to March.

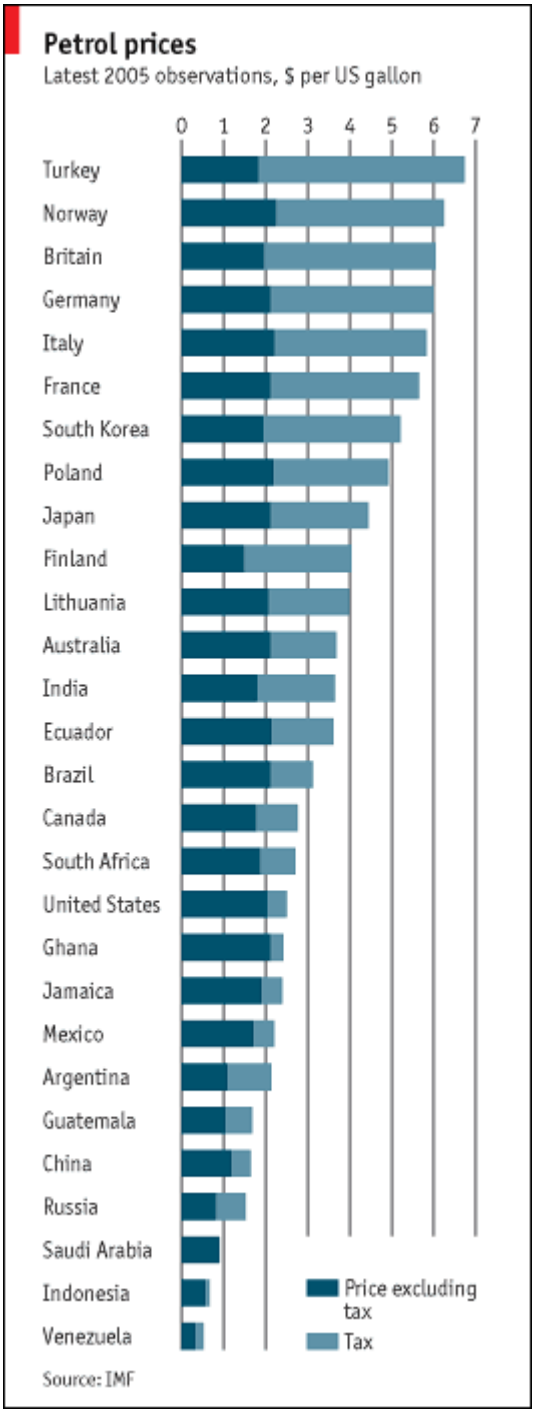
South Korea's inflation rate held at a lower-than-expected 2.0% in April. Thailand's inflation rate rose to 6.0% in the same month, up from 3.6% a year earlier.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Petrol prices

May 4th 2006
From The Economist print edition

Many Americans are furious at high petrol prices, but low taxes mean that they get a better deal at the pump than motorists do in most other countries. High taxes make Turkey the most expensive place to fill up, followed by Norway and Britain. The IMF says that higher gasoline taxes in America, which consumes a quarter of the world's oil, would help to curb excessive consumption.



Economy

May 4th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.2	Q1	+17.8	Mar	+ 0.8	Mar	+108.1	Mar	+160.8	2005	875.1	Mar
Hong Kong	+ 7.6	Q4	+ 5.9	Q4	+ 1.8	Mar	−11.9	Mar	+19.7	Q4	125.9	Mar
India	+ 7.6	Q4	+ 8.8	Feb	+ 5.0	Feb	−39.4	Mar	−13.3	Q4	145.1	Mar
Indonesia	+ 4.9	Q4	−17.5	Feb	+15.4	Apr	+30.5	Mar	+ 3.0	Q4	33.8	Feb
Malaysia	+ 5.2	Q4	+ 5.8	Feb	+ 4.8	Mar	+26.8	Feb	+19.9	Q4	73.1	Mar
Pakistan	+ 8.4	2005†	+19.3	Sep	+ 6.9	Mar	−10.5	Mar	− 3.7	Q4	9.8	Feb
Philippines	+ 6.1	Q4	−11.8	Feb	+ 7.6	Mar	− 3.8	Feb	+ 2.4	Dec	18.0	Mar
Singapore	+ 9.1	Q1	+25.2	Mar	+ 1.2	Mar	+32.5	Mar	+33.2	Q4	122.2	Mar
South Korea	+ 6.2	Q1	+10.0	Mar	+ 2.0	Apr	+18.8	Apr	+ 9.6	Mar	217.3	Mar
Taiwan	+ 6.4	Q4	+ 7.2	Mar	+ 0.4	Mar	+ 8.9	Mar	+16.4	Q4	257.1	Mar
Thailand	+ 4.7	Q4	+ 8.2	Mar	+ 6.0	Apr	− 5.9	Mar	− 0.7	Mar	53.7	Mar
Argentina	+ 9.1	Q4	+ 3.7	Mar	+11.1	Mar	+11.2	Mar	+ 5.4	Q4	19.6	Feb
Brazil	+ 1.4	Q4	+ 5.4	Feb	+ 5.3	Mar	+45.8	Mar	+13.3	Mar	59.2	Mar
Chile	+ 5.8	Q4	+ 5.0	Feb	+ 4.0	Mar	+11.6	Mar	+ 0.7	Q4	16.0	Mar
Colombia	+ 3.7	Q4	+ 5.6	Feb	+ 4.1	Apr	+ 1.4	Jan	− 1.9	Q4	15.0	Mar
Mexico	+ 2.7	Q4	+ 5.4	Feb	+ 3.4	Mar	− 4.9	Mar	− 5.7	Q4	75.6	Feb
Peru	+ 4.9	Feb	+ 3.6	Feb	+ 2.5	Mar	+ 5.2	Feb	+ 1.0	Q4	13.4	Mar
Venezuela	+10.2	Q4	+13.6	Jan	+11.4	Apr	+31.5	Q4	+25.4	Q4	21.8	Jan
Egypt	+ 5.2	Q1§	+ 4.0	2005†	+ 3.2	Mar	−11.1	Q4	+ 2.2	Q4	21.8	Mar
Israel	+ 4.8	Q4	+ 8.9	Feb	+ 3.6	Mar	− 8.6	Mar	+ 2.4	Q4	28.0	Mar
Saudi Arabia	+ 6.2	2005‡	na		+ 1.5	Jan	+84.6	2004	+90.7	2005	23.2	Feb
South Africa	+ 4.5	Q4	+ 3.8	Feb	+ 3.4	Mar	− 5.0	Mar	−10.1	Q4	20.6	Mar
Czech Republic	+ 6.9	Q4	+11.8	Feb	+ 2.8	Mar	+ 1.7	Feb	− 2.6	Q4	29.8	Mar
Hungary	+ 4.3	Q4	+11.6	Feb	+ 2.3	Mar	− 3.3	Feb	− 8.0	Q4	21.5	Mar
Poland	+ 4.2	Q4	+16.4	Mar	+ 0.4	Mar	− 2.6	Feb	− 4.0	Feb	42.3	Mar
Russia	+ 7.0	Q4	+ 4.1	Mar	+10.6	Mar	+128.1	Feb	+84.3	Q1	205.9	Mar
Turkey	+ 9.5	Q4	+ 5.0	Feb	+ 8.8	Apr	−45.8	Mar	−24.7	Feb	56.5	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.1	Q4	+ 6.8	Mar	+ 4.0	Mar	− 2.6	Feb	− 1.5	Feb	1.9	Feb
Latvia	+10.5	Q4	+ 7.6	Feb	+ 6.5	Mar	− 3.2	Feb	− 2.1	Feb	2.4	Feb
Lithuania	+ 8.1	Q1	na		+ 3.1	Mar	− 3.8	Feb	− 1.8	Feb	4.2	Feb
Slovakia	+ 7.6	Q4	+ 5.5	Feb	+ 4.5	Mar	− 2.9	Feb	− 4.2	Jan	15.1	Jan
Slovenia	+ 5.1	Q4	+ 8.1	Feb	+ 2.7	Apr	− 1.7	Feb	− 0.3	Feb	8.5	Jan

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §2005.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

May 4th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 3rd		Dec 30th 2005	
	May 3rd	year ago	May 3rd	% a year		one week	in local currency	in $ terms
China	8.01	8.28	14.7	2.58	1,511.7	+1.6	+ 23.8	+ 24.7
Hong Kong	7.75	7.79	14.3	4.61	17,027.0	+2.1	+ 14.5	+ 14.5
India	44.8	43.5	82.5	5.39	12,310.7	+3.1	+ 31.0	+ 31.5
Indonesia	8,777	9,510	16,152	13.42	1,499.1	+1.2	+ 28.9	+ 44.6
Malaysia	3.61	3.80	6.64	3.75	950.2	+0.1	+ 5.6	+ 10.6
Pakistan	60.1	59.5	111	9.37	11,727.9	-1.5	+ 22.7	+ 22.2
Philippines	51.3	54.1	94.4	7.31	2,340.8	+4.2	+ 11.7	+ 15.4
Singapore	1.57	1.63	2.90	3.44	2,659.7	+2.4	+ 13.3	+ 19.7
South Korea	934	1,000	1,719	4.37	1,435.2	-1.1	+ 4.0	+ 12.6
Taiwan	31.6	31.0	58.2	1.70	7,242.4	+1.0	+ 10.6	+ 14.9
Thailand	37.7	39.5	69.4	5.25	774.4	+0.5	+ 8.5	+ 18.0
Argentina	3.04	2.90	5.60	9.94	1,855.6	-3.3	+ 20.2	+ 19.6
Brazil	2.07	2.47	3.81	15.70	40,919.0	+1.3	+ 22.3	+ 38.0
Chile	517	574	952	4.80	10,162.2	+1.4	+ 10.4	+ 9.3
Colombia	2,377	2,337	4,374	5.96	10,962.0	-0.2	+ 15.2	+ 10.8
Mexico	11.0	11.0	20.2	7.03	21,159.2	+2.9	+ 18.9	+ 15.4
Peru	3.31	3.26	6.08	4.36	7,006.2	-1.2	+ 45.9	+ 51.4
Venezuela	2,494§	2,712§	4,590	10.08	30,907.2	-0.5	+ 51.5	+ 57.1
Egypt	5.76	5.80	10.60	8.56	57,835.0	+3.4	+ 4.5	+ 4.1
Israel	4.50	4.36	8.27	5.47	890.6	+1.2	+ 7.6	+ 10.1
Saudi Arabia	3.75	3.75	6.90	4.97	13,053.3	-5.5	- 21.9	- 21.9
South Africa	6.06	6.00	11.2	7.15	21,362.7	nil	+ 18.0	+ 23.5
Czech Republic	22.4	23.3	41.3	2.18	1,473.7	-4.8	nil	+ 9.8
Hungary	207	193	380	6.18	24,968.0	+0.8	+ 20.1	+ 24.4
Poland	3.02	3.24	5.57	4.15	44,052.8	-1.4	+ 23.7	+ 33.3
Russia	27.2	27.8	50.0	12.00	1,724.0‡	+3.3	+ 44.8	+ 53.2
Turkey	1.32	1.35	2.43	14.00	44,647.8	-0.2	+ 12.2	+ 14.8
EM (MSCI)*	1.00	1.00	1.84	na	860.2	+1.8	+ 21.8	+ 21.8
EMBI+†	1.00	1.00	1.84	na	374.1	+0.3	+ 1.5	+ 1.5

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.